

English Translation of a Report and Financial Statements Originally Issued in Chinese

MEDIATEK INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH
REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE NINE MONTHS THEN ENDED
SEPTEMBER 30, 2012 AND 2011

English Translation of a Report Originally Issued in Chinese

Review Report of Independent Accountants

To the Board of Directors and Shareholders
of MediaTek Inc.

We have reviewed the accompanying consolidated balance sheets of MediaTek Inc. and its subsidiaries as of September 30, 2012 and 2011, and the related consolidated statements of income and cash flows for the nine months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report based on our reviews.

We conducted our reviews in accordance with the Statements of Auditing Standards No. 36, "Review of Financial Statements" of the Republic of China (R.O.C.). A review is limited primarily to applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the requirements of the order VI-0960064020 issued by Financial Supervisory Commission, Executive Yuan, Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the R.O.C.

Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
October 29, 2012
Taipei, Taiwan
Republic of China

Notice to Readers

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in the R.O.C. and not those of any other jurisdictions. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the R.O.C.

MEDIATEK INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS

As of September 30, 2012 and 2011
(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	2012	2011	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2012	2011
Current assets				Current liabilities			
Cash and cash equivalents	3(1)	\$ 85,145,850	\$ 72,965,343	Short-term loans	3(18)	\$ 10,504,436	\$ 2,317,175
Held-for-trading financial assets-current	3(2)	5,679	137,961	Held-for-trading financial liabilities-current	3(2)	2,063	87,306
Financial assets designated as at fair value through profit or loss-current	3(3)	633,455	1,346,879	Accounts payable		10,844,603	5,627,920
Available-for-sale financial assets-current	3(4)	4,068,994	1,760,756	Payables to related parties	4	1,209,523	1,190,074
Held-to-maturity financial assets-current	3(5)	322,583	-	Income tax payable		774,576	702,968
Bond portfolios with no active market-current	3(13)	1,000,000	-	Accrued expenses	3(24)	12,326,660	13,160,126
Accounts receivable, net	1, 3(6)	8,216,424	8,383,728	Payables to contractors and equipment suppliers		48,815	-
Other receivables	3(7), 4	4,362,381	2,465,780	Other payables		38,916	-
Inventories, net	3(8)	12,090,971	7,171,815	Current portion of long-term payables	3(19)	26,408	-
Prepayments		1,218,226	2,362,533	Other current liabilities		1,105,625	853,291
Other current assets		522,173	419,101	Deferred income tax liabilities-current		5,027	-
Deferred income tax assets-current		255,963	286,306	Total current liabilities		<u>36,886,652</u>	<u>23,938,860</u>
Restricted assets-current	5	20,021	13,222				
Total current assets		<u>117,862,720</u>	<u>97,313,424</u>	Long-term liabilities			
Funds and investments				Long-term payables	3(19)	121,769	-
Financial assets designated as at fair value through profit or loss-noncurrent	3(9)	1,484,957	2,262,992				
Available-for-sale financial assets-noncurrent	3(10)	3,128,063	2,543,994	Other liabilities			
Held-to-maturity financial assets-noncurrent	3(11)	802,494	254,164	Accrued pension liabilities		195,622	156,852
Financial assets carried at cost-noncurrent	3(12)	2,714,857	1,998,261	Deposits received	4	18,430	5,969
Bond portfolios with no active market-noncurrent	3(13)	-	1,000,000	Deferred income tax liabilities-noncurrent		1,098,929	778,845
Investments accounted for using the equity method	3(14)	57,691,546	1,764,094	Other liabilities-others		70,364	15,711
Prepayments for long-term investments	3(15)	-	14,499	Total other liabilities		<u>1,383,345</u>	<u>957,377</u>
Total funds and investments		<u>65,821,917</u>	<u>9,838,004</u>	Total liabilities		<u>38,391,766</u>	<u>24,896,237</u>
Property, plant and equipment	3(16)			Shareholders' equity			
Land		1,273,869	888,722	Equity attributable to shareholders of the parent			
Buildings and facilities		6,826,756	5,916,978	Capital	3(20)		
Machinery and equipment		168,410	155,443	Common stock		13,493,623	10,999,772
Computer and telecommunication equipment		2,086,596	1,795,481	Capital collected in advance		79	-
Testing equipment		2,877,286	2,622,756	Capital reserve			
Miscellaneous equipment		1,157,423	1,010,761	Additional paid-in capital in excess of par	3(22)	78,042,950	11,055,025
Total cost		14,390,340	12,390,141	Treasury stock transaction	3(22)	1,011,446	941,301
Less : Accumulated depreciation		(5,669,123)	(4,584,269)	Donated assets	3(22)	1,260	1,260
Add : Construction in progress		1,978,903	1,400,937	Long-term investment transaction	3(14), 3(22)	139,006	207,315
Prepayments for equipment		92,138	97,560	Employee stock option	3(22), 3(23)	302,313	271,478
Property, plant and equipment, net		<u>10,792,258</u>	<u>9,304,369</u>	Total capital reserve		<u>79,496,975</u>	<u>12,476,379</u>
Intangible assets	3(17)			Retained earnings			
Trademarks		18,531	-	Legal reserve	3(21), 3(24)	23,072,429	21,710,122
Patents		160,894	158,777	Special reserve	3(24)	2,210,312	4,198,121
Software		226,332	230,066	Undistributed earnings	3(24)	57,650,681	55,505,983
Goodwill		14,375,778	6,863,129	Other adjustments			
IPs and others		1,466,736	1,396,989	Cumulative translation adjustments		(4,184,049)	(2,065,388)
Total intangible assets		<u>16,248,271</u>	<u>8,648,961</u>	Unrealized gain (loss) on financial instruments	3(14)	1,134,087	(199,223)
Other assets				Treasury stock	3(25)	(55,970)	(2,165,884)
Refundable deposits		225,804	267,192	Total shareholders' equity attributable to parent company		172,818,167	100,459,882
Deferred charges		29,082	35,736	Minority interests		31,754	52,297
Deferred income tax assets-noncurrent		257,157	-	Total shareholders' equity		<u>172,849,921</u>	<u>100,512,179</u>
Restricted assets-noncurrent	5	652	730				
Other assets		3,826	-				
Total other assets		<u>516,521</u>	<u>303,658</u>				
Total assets		<u>\$ 211,241,687</u>	<u>\$ 125,408,416</u>	Total liabilities and shareholders' equity		<u>\$ 211,241,687</u>	<u>\$ 125,408,416</u>

The accompanying notes are an integral part of these financial statements.

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Wu

MEDIATEK INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

For the nine months ended September 30, 2012 and 2011

(Amounts in thousands of New Taiwan Dollars, except for earnings per share)

Description	Notes	2012	2011
Gross sales		\$ 81,465,589	\$ 68,009,198
Less : Sales returns		(32,064)	(40,297)
Sales discounts		(8,907,374)	(3,744,184)
Net sales	3(26), 4	72,526,151	64,224,717
Cost of goods sold	4	(42,562,056)	(34,874,146)
Gross profits		29,964,095	29,350,571
Operating expenses			
Selling expenses		(2,253,578)	(1,875,791)
General and administrative expenses		(2,241,467)	(2,140,671)
Research and development expenses		(16,509,809)	(15,357,360)
Total operating expenses		(21,004,854)	(19,373,822)
Operating income		8,959,241	9,976,749
Non-operating income and gains			
Interest income		1,327,835	652,020
Gain on equity investments, net	3(14)	405,035	68,976
Gain on disposal of investments	3(14)	691,928	67,671
Foreign exchange gain, net		-	269,326
Valuation gain on financial assets	3(2)	75,505	20,375
Others	4	443,715	220,719
Total non-operating income and gains		2,944,018	1,299,087
Non-operating expenses and losses			
Interest expenses		(83,931)	(1,925)
Loss on disposal of property, plant and equipment		(1,884)	(15,021)
Foreign exchange loss, net		(15,315)	-
Impairment loss	3(4), 3(12)	(173,824)	-
Valuation loss on financial liabilities	3(2)	(2,063)	(87,306)
Others		(17,695)	(82,661)
Total non-operating expenses and losses		(294,712)	(186,913)
Income from continuing operations before income tax		11,608,547	11,088,923
Income tax expense		(832,205)	(389,659)
Consolidated net income		<u>\$ 10,776,342</u>	<u>\$ 10,699,264</u>
Income Attributable to :			
Shareholders of the parent		\$ 10,798,322	\$ 10,705,568
Minority interests		(21,980)	(6,304)
Consolidated net income		<u>\$ 10,776,342</u>	<u>\$ 10,699,264</u>
Basic Earnings Per Share (in New Taiwan Dollars)	3(27)	<u>Before tax</u> <u>After tax</u>	<u>Before tax</u> <u>After tax</u>
Consolidated net income		\$ 9.89 \$ 9.18	\$ 10.16 \$ 9.80
Net loss attributable to minority interests		0.02 0.02	0.01 0.01
Net income attributable to the parent		<u>\$ 9.91</u> <u>\$ 9.20</u>	<u>\$ 10.17</u> <u>\$ 9.81</u>
Diluted Earnings Per Share (in New Taiwan Dollars)	3(27)	<u>Before tax</u> <u>After tax</u>	<u>Before tax</u> <u>After tax</u>
Consolidated net income		\$ 9.82 \$ 9.11	\$ 10.05 \$ 9.70
Net loss attributable to minority interests		0.02 0.02	0.01 0.01
Net income attributable to the parent		<u>\$ 9.84</u> <u>\$ 9.13</u>	<u>\$ 10.06</u> <u>\$ 9.71</u>

The accompanying notes are an integral part of these financial statements.

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

English Translation of Financial Statements Originally Issued in Chinese
MEDIATEK INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended September 30, 2012 and 2011
(Amounts in thousands of New Taiwan Dollars)

Description	2012	2011
Cash flows from operating activities :		
Consolidated net income	\$ 10,776,342	\$ 10,699,264
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	922,043	873,224
Amortization	2,082,574	1,100,419
Bad debt provision	53,380	28,981
Reversal of sales returns and discounts	(127,560)	-
Employee stock options distributed	25,931	57,820
Amortization of financial assets discount or premium	484	1,847
Gain on recovery in market value and obsolescence of inventories	(1,300,655)	(1,779,055)
Net gain on equity investments	(405,035)	(68,976)
Net loss on disposal of property, plant and equipment	1,884	15,021
Net loss on disposal of intangible assets (included in other losses)	-	74
Gain on disposal of investments	(691,928)	(67,671)
Valuation (gain) loss on financial assets and liabilities	(52,271)	61,800
Loss on impairment of financial assets	173,824	-
Cash dividends from equity investees	-	166,503
Deferred income tax	220,842	184,853
Employees' bonuses	1,277,867	1,373,306
Changes in operating assets and liabilities:		
Financial assets designated as at fair value through profit or loss	1,226,294	(1,044,652)
Accounts receivable	(1,814,486)	(3,129,120)
Receivables from related parties	23,567	-
Other receivables	(303,581)	612,911
Inventories	(1,390,761)	3,968,868
Prepayments	(528,025)	(192,573)
Other current assets	(233,992)	74,187
Accounts payable	2,816,133	(1,761,924)
Payables to related parties	276,098	160,914
Income tax payable	92,632	(365,982)
Accrued expenses	(4,666,770)	(3,882,119)
Other payables	(35,344)	-
Current portion of long-term payables	8,196	-
Other current liabilities	327,884	231,123
Long-term payables	(25,893)	-
Accrued pension liabilities	5,084	49,625
Other liabilities-others	21,013	15,711
Net cash provided by operating activities	8,755,771	7,384,379
Cash flows from investing activities :		
(Increase) decrease in restricted assets	(6,890)	16,435
Increase in available-for-sale financial assets	(333,388)	(3,426,647)
Proceeds from disposal of available-for-sale financial assets	215,992	6,105,726
Increase in held-to-maturity financial assets	(322,028)	(254,164)
Proceeds from disposal of held-to-maturity financial assets	48,126	-
Increase in financial assets carried at cost	(978,042)	(836,842)
Proceeds from disposal of financial assets carried at cost	2,312	-
Proceeds from disposal of investments accounted for using the equity method	1,528,400	-
Increase in investments accounted for using the equity method	(255,583)	(203,614)
Net cash outflows from acquisition of subsidiaries	(938,022)	-
Proceeds from capital reduction of investments accounted for using the equity method	1,467	-
Increase in prepayment for long-term investments	-	(14,499)
Purchase of property, plant and equipment	(2,038,854)	(2,344,694)
Proceeds from disposal of property, plant and equipment	1,507	10,358
Decrease (increase) in refundable deposits	39,627	(5,704)
Increase in intangible assets and deferred charges	(1,156,015)	(160,843)
Net cash used in investing activities	(4,191,391)	(1,114,488)
Cash flows from financing activities :		
Increase in short-term loans	6,543,266	2,317,175
Increase in deposits received	12,254	4,996
Proceeds from exercise of employee stock options	1,349	3,364
Cash dividends	(10,328,124)	(21,999,457)
Cash dividends distributed to subsidiaries holding MTK's stock	70,145	155,881
Treasury stock acquired	-	(2,109,914)
Change in minority interests	-	54,486
Net cash used in financing activities	(3,701,110)	(21,573,469)
Effect of exchange rate	(1,538,858)	2,341,564
Net decrease in cash and cash equivalents	(675,588)	(12,962,014)
Cash and cash equivalents at the beginning of the period	85,821,438	85,927,357
Cash and cash equivalents at the end of the period	\$ 85,145,850	\$ 72,965,343
Supplemental disclosures of cash flow information :		
Interest paid during the period	\$ 76,535	\$ -
Income tax paid during the period	\$ 497,038	\$ 746,503
Activities partially affected cash flows :		
Purchase of property, plant and equipment	\$ 2,010,808	\$ 2,337,499
Add: decrease in payables to contractors and equipment suppliers	28,046	7,195
Cash paid for the purchase of property, plant and equipment	\$ 2,038,854	\$ 2,344,694
Non-cash activities :		
Change in unrealized gain (loss) on financial instruments	\$ 1,090,895	\$ (381,831)
Adjustment of shareholders' equity from disposal of investments accounted for using the equity method	\$ (86,357)	\$ -
Available-for-sale financial assets reclassified from investments accounted for using the equity method	\$ 560,270	\$ -
Purchase investment by issuing new shares	\$ 56,898,535	\$ -

The accompanying notes are an integral part of these financial statements

Chairman : Ming-Kai Tsai

President : Ching-Jiang Hsieh

Chief Financial Officer : David Ku

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

MediaTek Inc. (“MTK”) has prepared the notes in conformity with the order VI-0960064020 issued by Financial Supervisory Commission, Executive Yuan, which simplifies the disclosure requirement. According to this order, MTK is only required to disclose the differences of accounting policies between the latest annual audited consolidated financial statements and the current ones and to disclose the consolidated entities. The following items can be exempt from disclosures:

- i. History and organization;
- ii. Income tax;
- iii. Pension plan;
- iv. Summary of operation cost and expenses including salary, depreciation, and amortization; and
- v. Attachments pertaining to significant transactions, investments, and investments in Mainland China.

1. Summary of Significant Accounting Policies

The accompanying consolidated financial statements are prepared in accordance with the requirements of the order VI-0960064020 issued by Financial Supervisory Commission, Executive Yuan, Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the R.O.C. Significant accounting policies are summarized as follows:

Significant accounting policies adopted in preparing the accompanying consolidated financial statements are those adopted in preparing the latest annual consolidated financial statements, except those stated below:

General Descriptions of the Consolidated Entities

The accompanying consolidated financial statements include the accounts of MTK, all directly or indirectly majority-owned subsidiaries by MTK and those investees in which the MTK’s ownership percentage is less than 50% but MTK has a controlling interest. The consolidated subsidiaries are listed as follows:

Company	Main Business	Percentage of Ownership As of September 30,		Note
		2012	2011	
MediaTek Investment Corp.	General investing	100.00%	100.00%	-
Hsu-Ta Investment Corp.	General investing	100.00%	100.00%	1
Hsu-Chia Investment Limited	General investing	-	100.00%	1
Hsu-Kang Investment Limited	General investing	-	100.00%	1
Core Tech Resources Inc.	General investing	100.00%	100.00%	-
MediaTek Capital Corp.	General investing	100.00%	100.00%	-
RollTech Technology, Co. Ltd.	Software development	100.00%	100.00%	-
E-vehicle Semiconductor Technology Co. Ltd.	Research, manufacturing and sales	68.97%	68.97%	2
E-vehicle Holding Corp.	General investing	100.00%	-	3

(To be continued)

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Company	Main Business	Percentage of Ownership As of September 30,		Note
		2012	2011	
(Continued)				
E-vehicle Investment Limited	General investing	100.00%	-	4
E-vehicle Semiconductor (Shanghai) Co., Ltd.	Research, manufacturing and sales	100.00%	-	5
Gaintech Co. Limited	General investing	100.00%	100.00%	-
MediaTek China Limited	General investing	100.00%	100.00%	-
MediaTek (Hefei) Inc.	Technology services	100.00%	100.00%	-
MediaTek (Beijing) Inc.	Technology services	100.00%	100.00%	-
MediaTek (Shenzhen) Inc.	Technology services	100.00%	100.00%	-
MediaTek (Chengdu) Inc.	Technology services	100.00%	100.00%	-
MediaTek (Wuhan) Inc.	Technology services	100.00%	100.00%	-
MediaTek (Shanghai) Inc.	Technology services	100.00%	100.00%	6
MediaTek Singapore Pte. Ltd.	Research, manufacturing and sales	100.00%	100.00%	-
MTK Wireless Limited (UK)	Research	100.00%	100.00%	7
MediaTek Wireless Limited (Ireland)	Research	100.00%	100.00%	-
MediaTek Denmark ApS	Research	100.00%	100.00%	7
MTK Wireless L.L.C. (Dubai)	Technology services	100.00%	100.00%	-
MediaTek USA Inc.	Research	100.00%	100.00%	8
MediaTek Wireless, Inc. (USA)	Research	100.00%	100.00%	-
MediaTek Japan Inc.	Technology services	100.00%	100.00%	-
MediaTek India Technology Pvt. Ltd.	Research	100.00%	100.00%	-
MediaTek Korea Inc.	Technology services	100.00%	100.00%	-
Vogins Technology Co., Ltd.	General investing	79.51%	79.51%	-
Vogins Technology (Shanghai) Co., Ltd.	Software development	100.00%	100.00%	-
Hesine Technologies International Worldwide Inc.	General investing	100.00%	100.00%	-
Hesine Technologies, Inc.	Technology services	100.00%	100.00%	9
Gold Rich International (Samoa) Limited	General investing	100.00%	100.00%	10
Smarthead Limited	General investing	100.00%	100.00%	11
Gold Rich International (HK) Limited	General investing	100.00%	100.00%	12
Lepower Limited	General investing	71.09%	71.09%	13
Lepower (HK) Limited	General investing	100.00%	100.00%	14
Lepower Technologies (Beijing) Inc.	Research, manufacturing and sales	100.00%	-	15
Ralink Technology Corp.	Research, manufacturing and sales	100.00%	-	16
Ralink Technology (Singapore) Corp. Pte. Ltd.	General investing	-	-	16&17
T-Rich Technology (Cayman) Corp.	General investing	100.00%	-	16
T-Rich Technology Corp.	Research, manufacturing and sales	100.00%	-	16
Ralink Technology (Samoa) Corp.	General investing	100.00%	-	16
Ralink Technology Corporation (USA)	Research	100.00%	-	8&16
Shadow Investment Limited	General investing	100.00%	-	16

(To be continued)

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)		Percentage of Ownership		
		As of September 30,		
Company	Main Business	2012	2011	Note
MediaTek (Suzhou) Inc.	Technology services	100.00%	-	16
MediaTek (Nanjing) Inc.	Technology services	100.00%	-	16
MediaTek Sweden AB	Research	100.00%	-	18

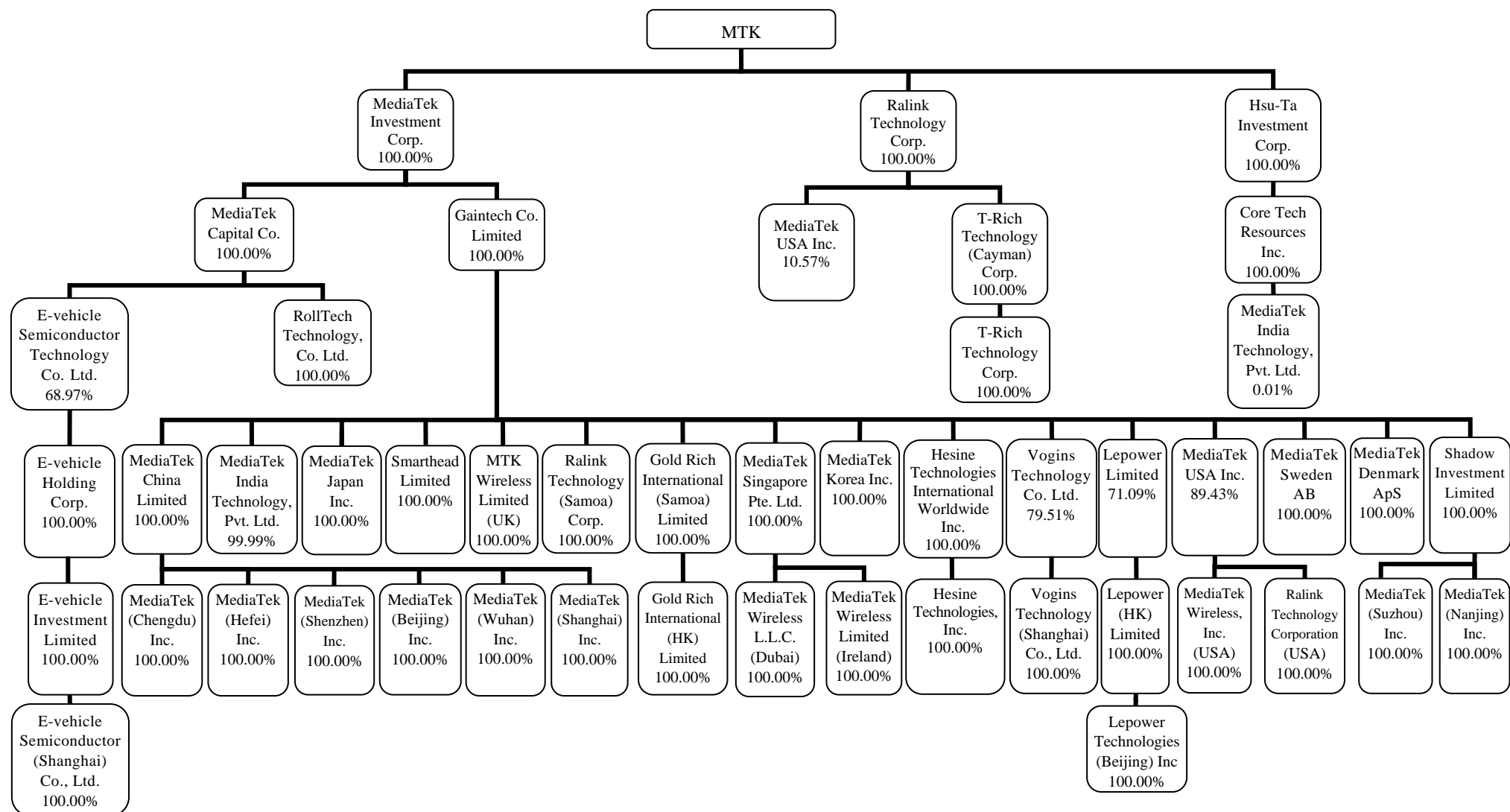
1. Hsu-Chia Investment Limited and Hsu-Kang Investment Limited were merged into Hsu-Ta Investment Limited on September 30, 2012. In addition, Hsu-Ta Investment Limited was reincorporated as a company limited by shares.
2. MediaTek Capital Corp. acquired E-vehicle Semiconductor Technology Co. Ltd. in May 2011.
3. E-vehicle Semiconductor Technology Co. Ltd. established E-vehicle Holding Corp. in September 2012.
4. E-vehicle Holding Corp. established E-vehicle Investment Limited in September 2012.
5. E-vehicle Investment Limited established E-vehicle Semiconductor (Shanghai) Co., Ltd. in September 2012.
6. MediaTek China Limited established MediaTek (Shanghai) Inc. in January 2011.
7. Gaintech Co. Limited acquired 100% shares of MTK Wireless Limited (UK) and MediaTek Denmark ApS from MediaTek Singapore Pte. Ltd. in August 2012.
8. MediaTek USA Inc. issued new shares to acquire 100% shares of Ralink Technology Corporation's subsidiary - Ralink Technology Corporation (USA) in October 2011.
9. Hesine Technologies International Worldwide Inc. invested in Hesine Technologies, Inc. in July 2011.
10. Gaintech Co. Limited established Gold Rich International (Samoa) Limited in May 2011.
11. Gaintech Co. Limited established Smarthead Limited in June 2011.
12. Gold Rich International (Samoa) Limited established Gold Rich International (HK) Limited in May 2011.
13. Gaintech Co. Limited established Lepower Limited in July 2011.
14. Lepower Limited established Lepower (HK) Limited in July 2011.
15. Lepower (HK) Limited established Lepower Technologies (Beijing) Inc. in February 2012.
16. MTK issued new shares to exchange 100% shares of Ralink Technology Corp. in October 2011 and acquired all its subsidiaries: T-Rich Technology (Cayman) Corp., T-Rich Technology Corp., Ralink Technology (Singapore) Corp. Pte. Ltd, Ralink Technology Corporation (USA), Ralink Technology (Samoa) Corp., Shadow Investment Limited, MediaTek (Suzhou) Inc., and MediaTek (Nanjing) Inc. The record date of shares exchange was set on October 1, 2011, and accordingly Ralink Technology Corp. and its subsidiaries were included in MTK's 2011 consolidated financial statements. After the acquisition, the Company conducted a group reorganization by attaching Ralink Technology (Samoa) Corp., Shadow Investment Limited, MediaTek (Suzhou) Inc. and MediaTek (Nanjing) Inc. to Gaintech Co. Limited as its subsidiaries.
17. Ralink Technology (Singapore) Corp. Pte. Ltd. has been entered process of liquidation from July 2012.
18. Gaintech Co. Limited acquired 100% shares of MediaTek Sweden AB in April 2012.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The following diagram presented information regarding the relationships and ownership percentages among MTK and subsidiaries as of September 30, 2012:



MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Principles of Consolidation

- A. The consolidated financial statements were prepared in accordance with SFAS No. 7. The transactions between the consolidated entities were appropriately eliminated in the consolidated financial statements.
- B. Investees in which MTK and subsidiaries hold more than 50% of voting rights, including those that are exercisable or convertible, are accounted for using the equity method and shall be consolidated, since MTK and subsidiaries are considered to possess control. An entity shall also be consolidated if any of the following circumstances exists:
- a. The total amount of voting rights held by the investee exceeds 50% due to agreement with other investors;
 - b. As permitted by law, or by contract agreements, MTK controls an entity's finances, operations and personnel affairs;
 - c. MTK has authority to appoint or discharge more than half members of board of directors (or equivalents), by whom the investee is controlled;
 - d. MTK leads and controls more than half of the members of the board of directors (or equivalents), by whom the investee is controlled;
 - e. Other indications of control possession.
- C. If the acquisition cost is greater or less than the proportionate book value of the investee, it is accounted for in accordance with the R.O.C. SFAS No. 25, "Business Combinations - Accounting Treatment under Purchased Method". Effective from January 1, 2006, pursuant to the newly revised SFAS No. 25, investment premiums, representing goodwill, are no longer amortized, and are assessed for impairment at least on an annual basis; while investment discounts continue to be amortized over the remaining period. In some cases, the fair value will exceed the investment cost. That excess generated after December 31, 2005 shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired noncurrent assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain.
- D. MTK together with its subsidiaries above mentioned are hereinafter referred to collectively as the "Company". Minority interests in the above mentioned subsidiaries are presented as a separate component of shareholders' equity.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)***Evaluation of Impairment of Accounts Receivable*

The Company first assesses whether objective evidence of impairment exists for notes and accounts receivable that are individually significant. If there is objective evidence that an impairment loss has occurred, the amount of impairment loss is assessed individually. For notes and accounts receivable other than those mentioned above, the Company groups those assets with financial assets with similar credit risk characteristics and collectively assess them for impairment.

2. Reasons and Effects for Change in Accounting Principles

- (1) Effective January 1, 2011, the Company adopted the third revised R.O.C. SFAS No. 34, "Financial Instruments: Recognition and Measurement". This change in accounting principles had no significant effect on net income and earnings per share for the nine months ended September 30, 2011.
- (2) Effective January 1, 2011, the Company adopted R.O.C. SFAS No. 41, "Operating Segments", to present operating segment information. The newly issued R.O.C. SFAS No. 41 replaced R.O.C. SFAS No. 20, "Segment Reporting".

3. Contents of Significant Accounts

- (1) Cash and Cash Equivalents

	As of September 30,	
	2012	2011
Petty cash	\$1,607	\$1,254
Savings and checking accounts	14,004,983	8,597,172
Time deposits	71,089,232	64,366,917
Cash equivalents-bonds-Repo	50,028	-
Total	<u>\$85,145,850</u>	<u>\$72,965,343</u>

a.As of September 30, 2012, the Company was committed to selling the bonds-Repo back to the brokers in October 2012.

b.Cash and cash equivalents were not pledged as of September 30, 2012 and 2011.

- (2) Held-for-trading Financial Assets and Liabilities-Current

a.	As of September 30,	
	2012	2011
Held-for-trading financial assets-Current		
Forward exchange contracts	\$5,679	\$323
Cross currency swap contracts	-	137,638
Total	<u>\$5,679</u>	<u>\$137,961</u>

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

	As of September 30,	
	2012	2011
b.		
Held-for-trading financial liabilities-Current		
Forward exchange contracts	\$2,063	\$87,306

- (a) The Company entered into derivative contracts during the nine months ended September 30, 2012 and 2011 to manage exposures to foreign exchange rate changes. The derivative contracts entered into by the Company did not meet the criteria of hedge accounting prescribed by SFAS No. 34. Therefore, they were recorded as the held-for-trading financial assets and liabilities-current. Please refer to Note 9 to the financial statements for the disclosure of relative risk information.

Outstanding forward exchange contracts as of September 30, 2012 and 2011 were as follows:

- (i) As of September 30, 2012:

Held-for-trading financial assets

Financial instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange contracts	Sell USD	October 2012	62,000

Held-for-trading financial liabilities

Financial instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange contracts	Sell USD	October 2012	20,000

- (ii) As of September 30, 2011:

Held-for-trading financial assets

Financial instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange contracts	Sell USD	October 2011	10,000

Held-for-trading financial liabilities

Financial Instruments	Type	Maturity	Contract amount (US\$'000)
Forward exchange contracts	Sell USD	October- November 2011	100,000

For the nine months ended September 30, 2012 and 2011, gain (loss) arising from the forward exchange contracts were NT\$24,723 thousand and NT\$(138,385) thousand, respectively.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(b) Outstanding cross currency swap contracts as of September 30, 2012 and 2011 were as follows:

(i) As of September 30, 2012:

None

(ii) As of September 30, 2011:

Held-for-trading financial assets:

<u>Financial Instruments</u>	<u>Maturity</u>	<u>Contract amount (US\$'000)</u>	<u>Range of interest rate paid</u>	<u>Range of interest rate received</u>
Cross currency swap contracts	November 2011	75,000	-%	3.80%~3.95%

For the nine months ended September 30, 2012 and 2011, gains arising from the cross currency swap contracts were nil and NT\$137,638 thousand, respectively.

(3) Financial Assets Designated as at Fair Value through Profit or Loss-Current

	<u>As of September 30,</u>	
	<u>2012</u>	<u>2011</u>
Convertible bonds	\$-	\$103,299
Bonds	-	306,640
Credit-linked deposits	281,585	-
Interest rate-linked deposits	351,870	936,940
Total	<u>\$633,455</u>	<u>\$1,346,879</u>

Convertible bonds, bonds, credit-linked and interest rate-linked deposits are hybrid financial instruments. Since it is impractical to measure the fair value of the embedded derivative separately either at acquisition or at a subsequent financial reporting date, the entire hybrid instruments were designated as financial instruments at fair value through profit or loss. Please refer to Note 9 to the financial statements for the disclosures of relative risk information.

(4) Available-for-sale Financial Assets-Current

	<u>As of September 30,</u>	
	<u>2012</u>	<u>2011</u>
Funds	\$2,570,093	\$1,597,184
Bonds	81,614	118,030
Depository receipts (Note)	30,917	45,542
Common shares	1,386,370	-
Total	<u>\$4,068,994</u>	<u>\$1,760,756</u>

Note: The Company recognized an impairment loss of NT\$84,998 thousand for the nine months ended September 30, 2012 due to a prolonged market value decline.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(5) Held-to-Maturity Financial Assets-Current**

	As of September 30,	
	2012	2011
Bonds	\$58,505	\$-
Structured deposits	264,078	-
	<u>\$322,583</u>	<u>\$-</u>

(6) Accounts Receivable-Net

	As of September 30,	
	2012	2011
Accounts receivable	\$8,704,804	\$8,707,516
Less: Allowance for sales returns and discounts	(190,571)	-
Allowance for doubtful accounts	(297,809)	(323,788)
Net	<u>\$8,216,424</u>	<u>\$8,383,728</u>

The Company entered into several factoring agreements without recourse with financial institutions. According to those agreements, the Company does not take the risk of uncollectible accounts receivable, but only the risk of loss due to commercial disputes. The Company did not provide any collateral, and the factoring agreements met the criteria of financial asset derecognition. The Company derecognized related accounts receivable after deducting the estimated value of commercial disputes. The Company has not withdrawn cash entitled by the factoring agreements from banks as of September 30, 2012 and 2011. Receivables from banks due to factoring agreement were NT\$3,168,779 thousand and NT\$1,903,860 thousand, respectively.

As of September 30, 2012 and 2011, accounts receivable derecognized were as follows:

As of September 30, 2012:

The Factor (Transferee)	Interest rate	Accounts receivable	Cash	Unutilized (US\$'000)	Credit line (US\$'000)
		derecognized (US\$'000)	withdrawn (US\$'000)		
Taishin International					
Bank	-	55,020	-	55,020	136,517
BNP Paribas	-	52,975	-	52,975	80,000
		107,995	-	107,995	216,517

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

As of September 30, 2011:

The Factor (Transferee)	Interest rate	Accounts receivable derecognized (US\$'000)	Cash withdrawn (US\$'000)	Unutilized (US\$'000)	Credit line (US\$'000)
Taishin International					
Bank	-	37,800	-	37,800	115,310
HSBC Bank	-	24,745	-	24,745	95,000
		<u>62,545</u>	<u>-</u>	<u>62,545</u>	<u>210,310</u>

(7) Other Receivables

	As of September 30,	
	2012	2011
Interest receivable	\$446,532	\$190,030
VAT refundable	711,915	316,799
Others	3,203,934	1,958,951
Total	<u>\$4,362,381</u>	<u>\$2,465,780</u>

As of September 30, 2012 and 2011, receivables from banks due to factoring agreement were NT\$3,168,779 thousand and NT\$1,903,860 thousand, respectively. Please refer to Note 3(6).

(8) Inventories-Net

	As of September 30,	
	2012	2011
Materials	\$2,892	\$-
Work in process	9,964,982	5,703,580
Finished goods	4,344,161	4,042,241
Subtotal	14,312,035	9,745,821
Less: Allowance for loss on decline in market value and obsolescence	<u>(2,221,064)</u>	<u>(2,574,006)</u>
Net	<u>\$12,090,971</u>	<u>\$7,171,815</u>

a. As of September 30, 2012 and 2011, the circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed. As a result, the Company recognized a reversal gain, which was included in cost of goods sold, in the amount of NT\$1,300,655 thousand and NT\$1,779,055 thousand for the nine months ended September 30, 2012 and 2011, respectively.

b. Inventories were not pledged as of September 30, 2012 and 2011.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(9) Financial Assets Designated as at Fair Value through Profit or Loss-Noncurrent**

	As of September 30,	
	2012	2011
Bonds	\$-	\$117,125
Interest rate-linked deposits	530,004	1,397,642
Credit-linked deposits	543,086	521,118
Exchange rate-linked deposits	411,867	227,107
Total	<u>\$1,484,957</u>	<u>\$2,262,992</u>

(10) Available-for-sale Financial Assets-Noncurrent

	As of September 30,	
	2012	2011
Funds	\$2,385,872	\$1,836,598
Bonds	742,191	607,392
Securities	-	100,004
Total	<u>\$3,128,063</u>	<u>\$2,543,994</u>

(11) Held-to-maturity Financial Assets-Noncurrent

	As of September 30,	
	2012	2011
Bonds	\$244,996	\$254,164
Interest rate-linked deposits	557,498	-
Total	<u>\$802,494</u>	<u>\$254,164</u>

(12) Financial Assets Carried at Cost-Noncurrent

	As of September 30,	
	2012	2011
Non-publicly traded stocks (Note)	\$1,522,190	\$1,369,522
Capitals	1,192,667	628,739
Total	<u>\$2,714,857</u>	<u>\$1,998,261</u>

During the first nine months of 2012, the Company increased its investment in Shenzhen Goodix Technology Ltd. by NT\$55,761 thousand and acquired the significant influence over the investee. Therefore, the Company reclassified the investment from financial assets carried at cost to investments accounted for using the equity method in the aggregate amount of NT\$114,445 thousand. Please refer to Note 3(14).

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

The common shares of China Mobile Games and Entertainment Group Limited have been listed on the NASDAQ since September 2012. Therefore, the Company reclassified the investment from financial assets carried at cost to available-for-sale financial assets-current in the amount of NT\$205,394 thousand.

Note: The Company recognized an impairment loss of NT\$88,826 thousand for the nine months ended September 30, 2012 due to a prolonged market value decline.

(13) Bond Portfolios with No Active Market

	As of September 30,	
	2012	2011
Series B preferred stock	\$1,000,000	\$1,000,000
Less: Current portion	(1,000,000)	-
Total	\$-	\$1,000,000

In December 2005, the Company acquired series B preferred stocks ("Preferred B") of Chinatrust Financial Holding Company by NT\$1,000,000 thousand. Terms and conditions of the stock are listed as follows:

- a. Duration : 7 years
- b. Par value : \$10 per share
- c. Issuing price : \$40 per share
- d. Dividends:

Dividend is at 3.5% per year based on actual issuing price and is paid in cash annually and in arrears.

- e. Redemption at maturity:

Preferred B is a 7-year preferred stock. Redemption price at maturity is at 100% of the issuing price, i.e. NT\$40 per share.

(14) Investments Accounted for Using the Equity Method

a.

Investee Company	Type	As of September 30, 2012		
		Share/unit	Amount	Ownership
MStar Semiconductor, Inc.	Common share	254,115,685	\$57,092,495	48.00%
Airoha Technology, Inc.	Common share	13,391,734	227,072	38.81%
Shenzhen Goodix Technology Ltd.	Common share	17,806,125	168,586	23.74%
Others			203,393	
Total			<u>\$57,691,546</u>	

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Investee Company	As of September 30, 2011			
	Type	Share/unit	Amount	Ownership
ALi Corporation	Common share	64,099,738	\$1,358,176	21.09%
Airoha Technology, Inc.	Common share	13,391,734	206,397	38.99%
Others			199,521	
Total			<u>\$1,764,094</u>	

- b. For the nine months ended September 30, 2012 and 2011, the Company recognized an investment gain accounted for using the equity method in the amount of NT\$405,035 thousand and NT\$68,976 thousand, respectively.
- c. For the nine months ended September 30, 2012, the Company invested Shenzhen Goodix Technology Ltd. which was reclassified from financial assets carried at cost-noncurrent in the amount of NT\$114,445 thousand.
- d. In May 2012, the Company sold shares of ALi Corporation at the price of NT\$1,528,400 thousand, resulting in an investment disposal gain of NT\$684,785 thousand and a reduction of capital reserve of NT\$86,357 thousand. As the Company had lost its significant influence over ALi Corporation, the Company reclassified the remaining shares to available-for-sale financial assets-current.
- e. In 2012, the Company totally acquired 254,115,685 shares (48% of MStar's outstanding shares) of MStar Semiconductor, Inc. through a tender offer. The price of the tender offer was 1 MStar share in exchange for 0.794 share of the Company's common stock plus NT\$1 in cash. The Company aggregately issued 201,767,854 new shares and paid NT\$254,116 thousand in cash for this tender offer.
- f. Investments mentioned above were not pledged as of September 30, 2012 and 2011.

(15) Capital collected in advance

	As of September 30,	
	2012	2011
Momagic Technologies Private Limited	\$-	\$14,499

(16) Property, Plant and Equipment

- a. No interest was capitalized for the nine months ended September 30, 2012 and 2011.
- b. Property, plant and equipment were not pledged as of September 30, 2012 and 2011.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(17) Intangible Assets**

	For the nine months ended September 30, 2012			
	Trademarks	Software	Patents, IPs and Others	Total
Original cost				
Balance at beginning of period	\$32,300	\$892,000	\$6,670,723	\$7,595,023
Increase - separately acquired	-	89,618	1,081,135	1,170,753
Increase - through business combination	-	-	23,627	23,627
Elimination and others	685	25,557	11,071	37,313
Balance at end of period	32,985	1,007,175	7,786,556	8,826,716
Accumulated amortization				
Balance at beginning of period	(4,852)	(612,576)	(4,255,323)	(4,872,751)
Increase - amortization	(9,602)	(168,355)	(1,903,515)	(2,081,472)
Elimination and others	-	88	(88)	-
Balance at end of period	(14,454)	(780,843)	(6,158,926)	(6,954,223)
Net	\$18,531	\$226,332	\$1,627,630	\$1,872,493

	For the nine months ended September 30, 2011		
	Software	Patents, IPs and Others	Total
Original cost			
Balance at beginning of period	\$2,712,581	\$9,034,111	\$11,746,692
Increase - separately acquired	115,108	52,266	167,374
Elimination and others	(2,051,401)	(3,652,866)	(5,704,267)
Balance at end of period	776,288	5,433,511	6,209,799
Accumulated amortization			
Balance at beginning of period	(2,379,528)	(6,657,958)	(9,037,486)
Increase - amortization	(215,211)	(885,208)	(1,100,419)
Elimination and others	2,048,517	3,665,421	5,713,938
Balance at end of period	(546,222)	(3,877,745)	(4,423,967)
Net	\$230,066	\$1,555,766	\$1,785,832

(18) Short-Term Loans

	As of September 30,	
	2012	2011
Unsecured bank loans	\$10,504,436	\$2,317,175

The interest rate of the unsecured loans as of September 30, 2012 and 2011 were between 0.95~1.25% and 0.84%.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(19) Long-Term Payables**

Item	Period	As of September 30,		Installment Payment
		2012	2011	
Royalty payables	January 2011- December 2016	\$148,177	\$-	Repayable in 24 quarterly installments.
Less: Current portion		(26,408)	-	
Net		<u>\$121,769</u>	<u>\$-</u>	

a. The royalty payables was for Ralink Technology Corporation's use of patent.

b. The Company did not provide collateral for the above payables.

(20) Common Stock

As of January 1, 2011, the authorized and issued common shares of MTK amounted to NT\$12,000,000 thousand and NT\$10,999,317 thousand, divided into 1,200,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options) and 1,099,931,683 shares, respectively, each share at par value of NT\$10. In addition, capital collected in advance in the amount of NT\$365 thousand, divided into 36,501 shares, were issued and registered during the year of 2011.

Based on the resolution of shareholders' general meeting on June 15, 2011, MTK resolved to issue new shares to exchange 100% shares of Ralink Technology Corp. MTK issued 55,533,588 new shares according to the business combination agreement, each share at par value of NT\$10. The record date of shares exchange was set on October 1, 2011, and the government approval has been successfully obtained.

On October 28, 2011, MTK retired 8,000,000 shares of treasury stock which were purchased during the period from July 14, 2011 to September 12, 2011 for the shareholders' interest. The government approval has been successfully obtained.

In 2011, MTK issued and registered 17,339 new shares at par value of NT\$10 for the employee stock options exercised.

Based on the resolution of shareholders' general meeting on June 13, 2012, MTK resolved to increase authorized shares of MTK amounted to NT\$20,000,000 thousand, divided into 2,000,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options), each share at par value of NT\$10. The government approval has been successfully obtained.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

The board of directors has approved a tender offer to acquire shares of MStar Semiconductor, Inc. ("MStar") on June 22, 2012. MTK totally issued 201,767,854 new shares at par value of NT\$10 to acquire 48% shares of MStar. The government approval has been successfully obtained.

For the nine months ended September 30, 2012, MTK issued 83,224 new shares at par value of NT\$10 for the employee stock options exercised. Among those new shares, 7,893 shares (NT\$79 thousand in the amount) were not yet registered and therefore were classified as capital collected in advance.

As of September 30, 2012, the authorized and issued common shares of MTK amounted to NT\$20,000,000 thousand and NT\$13,493,623 thousand, divided into 2,000,000,000 shares (including 20,000,000 shares reserved for exercise of employee stock options) and 1,349,362,296 shares, respectively, each share at par value of NT\$10. Capital collected in advance was NT\$79 thousand.

(21) Legal Reserve

According to the amendment of R.O.C. Company Law, effective on January 4, 2012, 10% of MTK's net income after tax shall be appropriated to legal reserve prior to any distribution. Where such legal reserve amounts to the total authorized capital, this provision shall not apply. Where a company incurs no loss, it may distribute its legal reserve by issuing new shares to its original shareholders' in proportion to the number of shares being held by each of them or by cash. Where legal reserve is distributed by issuing new shares or by cash, only the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed.

(22) Capital Reserve

	As of September 30,	
	2012	2011
Additional paid-in capital	\$78,042,950	\$11,055,025
Treasury stock transaction	1,011,446	941,301
Donated assets	1,260	1,260
Long-term investment transaction	139,006	207,315
Employee stock option	302,313	271,478
Total	<u>\$79,496,975</u>	<u>\$12,476,379</u>

According to R.O.C. Company Law, capital reserve cannot be used for distributing cash. However, according to the amendment of R.O.C. Company Law, effective on January 4, 2012, the capital reserve generated from excess of the issuance price over the par value of capital stock (including the stock issued for mergers and the reserve from treasury stock transactions) and donations can be used to distribute cash. MTK shall not use capital reserve to make up its loss unless legal reserve is insufficient for making up such losses. Capital reserve can be used to distribute stock dividends. However, each distribution is subject to a legal limitation.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(23) Employee Stock Options**

a. In December 2007, July 2009, May 2010, August 2011 and August 2012, MTK was authorized by the Financial Supervisory Commission, Executive Yuan, to issue employee stock options with a total number of 5,000,000 units, 3,000,000 units, 3,500,000 units, 3,500,000 and 3,500,000 units, each option eligible to subscribe for one common share. The options may be granted to qualified employees of MTK or any of its domestic or foreign subsidiaries, in which MTK's shareholding with voting rights, directly or indirectly, is more than fifty percent. The options are valid for ten years and exercisable at certain percentage subsequent to the second anniversary of the granted date. Under the terms of the plan, the options are granted at an exercise price equal to the closing price of MTK's common share listed on the TWSE on the grant date.

Detailed information relevant to the employee stock options is disclosed as follows:

Date of grant	Total number of options granted	Total number of options outstanding	Shares available for option holders	Exercise price (NTD) (Note)
2008.03.31	1,134,119	459,407	459,407	\$358.0
2008.08.28	1,640,285	750,233	750,233	344.5
2009.08.18	1,382,630	742,600	742,600	431.0
2010.08.27	1,605,757	966,341	966,341	404.8
2010.11.04	65,839	17,714	17,714	377.0
2011.08.24	2,109,871	1,843,550	1,843,550	277.4
2012.08.14	1,346,795	1,328,169	1,328,169	286.8

Note: The exercise prices have been adjusted to reflect the change of outstanding shares (i.e. the share issued for cash or the appropriations of earnings) in accordance with the plan.

The compensation cost was recognized under the fair value method and the Black-Scholes Option Pricing model was used to estimate the fair value of options granted. For the nine months ended September 30, 2012 and 2011, compensation costs recognized were NT\$25,931 thousand and NT\$57,820 thousand, respectively. Assumptions used in calculating the fair value are disclosed as follows:

	Employee Stock Option
Expected dividend yield	3.13%~6.63%
Expected volatility	34.41%~50.06%
Risk free interest rate	0.93%~2.53%
Expected life	6.5 years

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The respective information of the units and weighted average exercise prices for stock option plans of MTK is disclosed as follows:

Employee Stock Option	For the nine months ended September 30,			
	2012		2011	
	Options	Weighted-average Exercise Price per Share (NTD)	Options	Weighted-average Exercise Price per Share (NTD)
	(Unit)		(Unit)	
Outstanding at beginning of period	5,198,793	\$359.6	4,327,687	\$416.0
Granted	1,346,795	286.8	2,109,871	280.0
Exercised	-	-	(9,062)	371.0
Forfeited (Expired)	(437,574)	336.5	(1,028,835)	412.0
Outstanding at end of period	<u>6,108,014</u>	332.9	<u>5,399,661</u>	363.0
Exercisable at end of period	<u>1,951,053</u>		<u>1,091,626</u>	
Weighted-average fair value of options granted during the period (in NTD)	<u>\$90.5</u>		<u>\$56.5</u>	

The information regarding MTK's outstanding stock options as of September 30, 2012 is disclosed as follows:

	Range of Exercise Price (NTD)	Outstanding Stock Options			Exercisable Stock Options	
		Options	Weighted-average Expected Remaining Years	Weighted-average Exercise Price per Share (NTD)	Options	Weighted-average Exercise Price per Share (NTD)
Stock option plan of 2007	\$344.5~358.0	1,209,640	2.26	\$364.9	1,209,640	\$349.6
Stock option plan of 2009	431.0	742,600	3.38	460.6	450,062	431.0
Stock option plan of 2010	377.0~404.8	984,055	4.42	429.2	291,351	404.8
Stock option plan of 2011	277.4	1,843,550	5.42	280.0	-	-
Stock option plan of 2012	286.8	<u>1,328,169</u>	6.38	291.0	<u>-</u>	<u>-</u>
		<u>6,108,014</u>		\$332.9	<u>1,951,053</u>	

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

b.MTK issued new shares to exchange 100% shares of Ralink Technology Corp. on October 1, 2011. According to the share-swap agreement, MTK also issued its own stock options to replace Ralink's stock options. The original terms of Ralink's options remain except for the changes: a) the underlying shares have been changed to MTK's shares; and b) the number of shares each option can subscribe for has been changed according to the share exchange ratio stated in the share swap agreement.

Details of Ralink's stock options to be replaced are shown below:

Date of grant	Total number of options granted	Total number of options outstanding on the shares exchange date	Total number of options outstanding translated by share exchange ratio on the shares exchange date	Total number of options outstanding	Shares available for option holders	Exercise price (NTD) (Note)
2006.06.30	91,000	1,575	499	-	-	\$14.3
2006.09.30	599,500	9,763	3,092	-	-	14.3
2006.12.31	78,000	3,936	1,247	-	-	14.3
2007.03.31	273,000	11,967	3,791	-	-	15.7
2007.06.30	150,000	32,879	10,416	9,419	9,419	15.7
2007.09.30	560,000	149,568	47,368	15,857	15,857	15.7
2007.12.30	17,000	944	299	-	-	15.7
2007.12.31	1,000,000	277,490	87,895	37,432	37,432	16.7

Note: The exercise prices have been adjusted to reflect the change of outstanding shares (i.e. the share issued for cash or the appropriations of earnings) in accordance with the plan.

The Black-Scholes Option Pricing model was used to estimate the fair value of options granted to replace Ralink's options. Assumptions used in calculating the fair value are disclosed as follows:

	Employee Stock Option
Expected dividend yield	6.57%
Expected volatility	39.5%
Risk free interest rate	0.71%~0.86%
Expected life	0.75 year

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

The weighted-average exercise price of the options granted to replace Ralink's options is disclosed as follows:

Employee Stock Option	For the nine months ended September 30, 2012	
	Options (Unit)	Weighted-average Exercise Price per Share (NTD)
Outstanding at beginning of period	144,735	\$16.3
Granted	-	-
Exercised	(82,027)	16.2
Forfeited (Expired)	-	-
Outstanding at end of period	62,708	16.3
Exercisable at end of period	62,708	
Weighted-average fair value of options granted during the period (in NTD)	\$-	

Other information is disclosed as follows:

Authorized issue date	Range of Exercise Price (NTD)	Outstanding Stock Options			Exercisable Stock Options	
		Options (Unit)	Weighted- average Expected Remaining Years	Weighted- average Exercise Price per Share (NTD)	Options (Unit)	Weighted- average Exercise Price per Share (NTD)
2007.01.29	15.7	25,276	0.03	15.7	25,276	15.7
2007.10.30	16.7	37,432	0.08	16.7	37,432	16.7
		62,708		\$16.3	62,708	

(24) Earnings Distribution and Dividends Distribution Policy

According to MTK's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

- Income tax obligation;
- Offsetting accumulated deficits, if any;
- Legal reserve at 10% of net income after tax; where such legal reserve amounts to the total authorized capital, this provision shall not apply.
- Special reserve in compliance with the Company Law or the Securities and Exchange Law;
- Remuneration for directors and supervisors to a maximum of 0.5% of the remaining current year's earnings after deducting item (a) through (d). Remuneration for directors and supervisors' services is limited to cash payments.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

f. The remaining after all above appropriations and distributions, combining with undistributed earnings from prior years, shall be fully for shareholders' dividends and employees' bonuses and may be retained or distributed proportionally. The portion of employees' bonuses may not be less than 1% of total earnings resolved to distribute for shareholders' dividends and employees' bonuses. Employees' bonuses may be distributed in the form of shares or cash, or a combination of both. Employees of MTK's subsidiaries, meeting certain requirements determined by the board of directors, are also eligible for the employee stock bonus.

Shareholders' dividends may be distributed in the form of shares or cash, or a combination of both, and cash dividends to be distributed may not be less than 10% of total dividends to be distributed.

According to the regulations of Taiwan SFC, MTK is required to appropriate a special reserve in the amount equal to the sum of debit elements under shareholders' equity, such as unrealized loss on financial instruments and negative cumulative translation adjustment, at every year-end. Such special reserve is prohibited from distribution. However, if any of the debit elements is reversed, the special reserve in the amount equal to the reversal may be released for earnings distribution or making up for losses.

During the nine months ended September 30, 2012 and 2011, the amounts of the employee' bonuses were estimated to be NT\$1,277,867 thousand and NT\$1,373,306 thousand, respectively. During the nine months ended September 30, 2012 and 2011, the amounts of remunerations to directors and supervisors were estimated to be NT\$16,268 thousand and NT\$24,595 thousand, respectively. Employee bonuses were estimated based on a specific rate of net income for the nine months ended September 30, 2012 and 2011 (excluding the impact of employees' bonuses) while remunerations to directors and supervisors were estimated based on MTK's Articles of Incorporation. Estimated amount of employee bonuses and remunerations paid to directors and supervisors were charged to current income. If stock bonuses are resolved for distribution to employees, the number of shares distributed is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares on the day preceding the shareholders' meeting. If the resolution of shareholders' general meeting modifies the estimates significantly in the subsequent year, MTK shall recognize the change as an adjustment to income of next year.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

The appropriations of earnings for 2011 and 2010 were resolved by the board of directors' meeting on March 21, 2012 and March 16, 2011, while the appropriations of earnings for 2011 and 2010 were resolved by the shareholders' general meeting on June 13, 2012 and June 15, 2011. The amounts resolved in the shareholders' general meeting were consistent with those determined by the board of directors. The details of the distribution are as follows:

	For the year ended December 31,	
	2011	2010
Directors' and supervisors' remuneration	\$28,497	\$48,045
Employee bonus-cash	\$1,714,243	\$3,863,296
Cash dividend	\$10,328,124	\$21,999,457

The difference between the resolution of the shareholders' general meeting and the estimated expense of the directors' and supervisors' remuneration and the employee bonus for 2011 is as follows:

Appropriations	The amount resolved by the shareholders' general meeting	Expense estimated	Difference	Difference reasons and the accounting treatment
Employee bonus-cash	\$1,714,243	\$1,714,243	\$-	-
Directors' and supervisors' remuneration	\$28,497	\$24,687	\$3,810	(Note)

Note: The difference would be considered as changes in accounting estimate and would be included in the profit or loss in 2012.

The information about the appropriations of earnings which were resolved by the board of directors' meeting and the shareholders' meeting is available at the Market Observation Post System website.

(25) Treasury Stock

- a. The Company purchases its own shares as treasury stock from Taiwan Stock Exchange. Changes in treasury stock during the nine months ended September 30, 2012 and 2011 is as follows:

(a)

- (i) For the nine months ended September 30, 2012

None

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(ii) For the nine months ended September 30, 2011

(In thousands of shares)

Purpose	January 1, 2011	Increase	Decrease	September 30, 2011
For the shareholder's interest	-	8,000	-	8,000

(b) According to the Securities and Exchange Law of R.O.C., the total shares of treasury stock shall not exceed 10% of MTK's issued stock, and the total purchase amount shall not exceed the sum of retained earnings, additional paid-in capital and realized additional paid-in capital. As such, the maximum number of shares of treasury stock that the Company could hold as of September 30, 2011 was 109,998 thousand shares, while the amount of ceiling was NT\$88,272,390 thousand.

(c) In compliance with Securities and Exchange Law of R.O.C., treasury stock should not be pledged, nor should it be entitled to voting rights or receiving dividends. Stock held by subsidiaries is treated as treasury stock. These subsidiaries have the same rights as other stockholders except for subscription to new stock issuance and voting rights.

b. MTK's shares owned by the subsidiary are accounted for as treasury stock. Movement schedule of MTK's treasury stock is as follows:

Owner	January 1, 2012		Additions		Disposal			September 30, 2012		
	Shares	Amount	Shares	Amount	Shares	Amount	Price	Shares	Amount	Market Value
MediaTek Capital Corp.	7,794,085	\$55,970	-	\$-	-	\$-	\$-	7,794,085	\$55,970	\$2,412,269

Owner	January 1, 2011		Additions		Disposal			September 30, 2011		
	Shares	Amount	Shares	Amount	Shares	Amount	Price	Shares	Amount	Market Value
MediaTek Capital Corp.	7,794,085	\$55,970	-	\$-	-	\$-	\$-	7,794,085	\$55,970	\$2,560,357

(26) Net Operating Revenue

	For the nine months ended September	
	2012	2011
Revenues from sales of multimedia and cell phone chipsets	\$81,016,575	\$67,650,864
Other operating revenue	449,014	358,334
Subtotal	81,465,589	68,009,198
Less: Sales returns	(32,064)	(40,297)
Sales discounts	(8,907,374)	(3,744,184)
Net Sales	\$72,526,151	\$64,224,717

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(27) Earnings Per Share**

MTK's capital structure is classified as complex capital structure after the issuance of employee stock options. Basic earnings per share and dilutive earnings per share are disclosed as follows:

	<u>Amount (Numerator)</u>			<u>Earnings per share</u>	
	<u>Before tax</u>	<u>After tax</u>	<u>Shares (Denominator)</u>	<u>Before tax</u>	<u>After tax</u>
<u>For the nine months ended September 30, 2012</u>					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	\$11,630,527	\$10,798,322	1,173,662,349	<u>\$9.91</u>	<u>\$9.20</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	8,423,374		
Stock option to employees	-	-	128,680		
Diluted EPS	<u>\$11,630,527</u>	<u>\$10,798,322</u>	<u>1,182,214,403</u>	<u>\$9.84</u>	<u>\$9.13</u>

	<u>Amount (Numerator)</u>		<u>Shares (Denominator)</u>	<u>Earnings per share</u>	
	<u>Before tax</u>	<u>After tax</u>		<u>Before tax</u>	<u>After tax</u>
Consolidated net income attributable to minority interests					
Basic EPS					
Net income	\$(21,980)	\$(21,980)	1,173,662,349	<u>\$(0.02)</u>	<u>\$(0.02)</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	8,423,374		
Stock option to employees	-	-	128,680		
Diluted EPS	<u>\$(21,980)</u>	<u>\$(21,980)</u>	<u>1,182,214,403</u>	<u>\$(0.02)</u>	<u>\$(0.02)</u>

	Amount (Numerator)			Earnings per share	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
<u>For the nine months ended September 30, 2011</u>					
Consolidated net income attributable to the parent					
Basic EPS					
Net income	\$11,095,227	\$10,705,568	1,090,772,918	<u>\$10.17</u>	<u>\$9.81</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	12,290,741		
Stock option to employees	-	-	40,144		
Diluted EPS	<u>\$11,095,227</u>	<u>\$10,705,568</u>	<u>1,103,103,803</u>	<u>\$10.06</u>	<u>\$9.71</u>

(To be Continued)

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)

	Amount (Numerator)		Shares (Denominator)	Earnings per share	
	Before tax	After tax		Before tax	After tax
Consolidated net income attributable to minority interests					
Basic EPS					
Net income	\$(6,304)	\$(6,304)	1,090,772,918	<u>\$(0.01)</u>	<u>\$(0.01)</u>
Effect of dilutive potential common shares:					
Bonus to employees	-	-	12,290,741		
Stock option to employees	-	-	40,144		
Diluted EPS	<u>\$(6,304)</u>	<u>\$(6,304)</u>	<u>1,103,103,803</u>	<u>\$(0.01)</u>	<u>\$(0.01)</u>

4. Related Party Transactions

(1) Related parties and relations

Related parties	Relations
King Yuan Electronics Co., Ltd. ("King Yuan")	The chairman of MTK and the chairman of King Yuan are close relatives
Airoha Technology Corp. ("Airoha")	Equity investee
ALi Corporation ("ALi")	Equity investee (Note)
JMicron Technology Corporation ("JMicon")	MTK's chairman doubles as JMicon's chairman
Andes Technologies, Inc. ("Andes")	MTK's chairman doubles as Andes's chairman

Note: Information disclosed herein includes only those transactions with ALi occurred before May 7, 2012, the day the Company partly disposed of shares of ALi and ceased using the equity method.

(2) Major transactions with related parties

a. Sales

	For the nine months ended September 30,			
	2012		2011	
	Amount	% of net sales	Amount	% of net sales
ALi	\$-	-	\$73,248	0.11
Other	874	-	-	-
Total	<u>\$874</u>	<u>-</u>	<u>\$73,248</u>	<u>0.11</u>

For the nine months ended September 30, 2011, the trade credit terms for related parties and third-party customers were both 45 to 60 days. Third-party customers may prepay their accounts in advance. The Company's sales to ALi were royalty revenues, which were charged based on the royalty agreement with ALi.

b. IC testing, experimental services, manufacturing technology services

	Transactions	For the nine months ended September 30,	
		2012	2011
King Yuan	IC testing, experimental services, and manufacturing technology service	<u>\$3,643,689</u>	<u>\$3,541,552</u>

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

c. Rental income and related other receivables

	Rental Income		Other Receivables	
	For the nine months ended			
	September 30,		As of September 30,	
	2012	2011	2012	2011
JMicron	\$6,569	\$4,573	\$1,189	\$389
Andes	29	-	-	-
Total	\$6,598	\$4,573	\$1,189	\$389

NT\$876 thousand was received from JMicon, which was accounted for as deposits received due to a lease of office space.

(3) Receivables and payables resulted from the above transactions

Payables to related parties

	As of September 30,			
	2012		2011	
	Amount	%	Amount	%
King Yuan	\$1,209,523	10.03	\$1,190,074	17.45

5. Assets Pledged As Collateral(1) As of September 30, 2012

	Amount	Party to which assets	
		was pledged	Purpose of pledge
Restricted deposits-current	\$6,917	Administrative Bureau of HSIP	Land lease guarantee
Restricted deposits-current	3,067	Customs Office	Tariff execution deposits
Restricted deposits-current	3,037	Danske Bank	Credit guarantee
Restricted deposits-current	7,000	Taiwan Cooperative Bank	Pledged for L/C
Restricted deposits-noncurrent	69	Customs Office	Tariff execution deposits
Restricted deposits-noncurrent	583	Citibank	Tariff execution deposits
Total	\$20,673		

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(2) As of September 30, 2011**

	Amount	Party to which assets was pledged	Purpose of pledge
Restricted deposits-current	\$6,917	Administrative Bureau of HSIP	Land lease guarantee
Restricted deposits-current	3,030	Customs Office	Tariff execution deposits
Restricted deposits-current	3,275	Danske Bank	Credit guarantee
Restricted deposits-noncurrent	78	Customs Office	Tariff execution deposits
Restricted deposits-noncurrent	652	Citibank	Tariff execution deposits
Total	<u>\$13,952</u>		

6. Commitments and Contingencies**(1) Lawsuit:**

- a. Rambus Inc. ("Rambus") filed a complaint against 26 companies on December 1, 2010 in the U.S. International Trade Commission, alleging infringement of United States Patents Nos. 6,470,405, 6,591,353, 7,287,109, 7,602,857, 7,602,858 and 7,715,494. Specifically, Rambus alleged that MTK's DVD and DTV chips infringe two of the abovementioned patents (U.S. Patent Nos. 6,591,353 and 7,287,109).

In addition, Rambus filed a complaint against MTK and other defendants on December 1, 2010 in the United States District Court for the Northern District of California, alleging that MTK's DVD chips, DTV chips and CD-ROM chips infringe United States Patent Nos. 6,034,918, 6,038,195, 6,260,097, 6,304,937, 6,426,916, 6,584,037, 6,715,020, 6,751,696, 7,209,997, 6,591,353 and 7,287,109.

U.S. International Trade Commission issued an Initial Determination on March 2, 2012 that found no violation of Section 337 of the Tariff Act by MTK's products.

MTK and Rambus entered into a settlement and patent license agreement to settle all pending patent litigations and to dismiss all proceedings pending against each other including the above referenced litigations on March 5, 2012. The agreement grants MTK the option to use Rambus' patented innovations in a broad range of MTK's products.

- b. Freescale Semiconductor, Inc. ("Freescale") filed a complaint with the U.S. International Trade Commission against MTK and two other Respondents on June 8, 2011 alleging infringement of United States Patents No. 5,467,455. Freescale alleged that MTK's DTV chips infringe its patent and sought to prevent the accused products from being imported into the United States.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

U.S. International Trade Commission issued an Initial Determination for the above referenced matter on July 12, 2012 that found no violation of Section 337 of the Tariff Act by MTK's products, Freescale failed to establish the domestic industry element, Freescale's asserted patent claims are invalid, and MTK's products do not infringe the asserted patent claims. On September 12, 2012, the U.S. International Trade Commission issued a Notice of its affirmation of all of the findings listed above and the termination this investigation.

Freescale also filed a complaint in the United States District Court for the Western District of Texas against MTK and one other defendant on June 8, 2011, alleging infringement of United States Patent No. 5,467,455. Freescale alleged that MTK's DTV chips infringe its patent and sought damages and an injunction to prevent the accused products from being sold in the future.

MTK filed a complaint in the United States District Court for the Northern District of California against Freescale on November 3, 2011 alleging infringement of United States Patent Nos. 6,738,845, 6,088,753, 6,311,244, and 6,889,331. MTK alleged that Freescale's multimedia application processors and micro-controller products infringe the above referenced patents, and sought damages and an injunction to prevent the accused products from being sold in the future.

Freescale filed a complaint in the U.S. International Trade Commission against MTK and thirteen other Respondents on November 30, 2011 alleging infringement of United States Patent No. 5,467,455. Freescale alleged that MTK's DTV chips infringe its patent and sought to prevent the accused products from being imported into the United States.

Additionally, Freescale filed a complaint in the United States District Court for the Western District of Texas against MTK on July 6, 2012 alleging infringement of United States Patent Nos. 6,920,316, 5,825,640, 5,943,274. Freescale alleged that MTK's DTV chips infringe its patents and sought damages and an injunction to prevent the accused products from being sold in the future.

- c. LSI Corporation ("LSI") and Agere Systems Inc. ("Agere") filed a complaint with the U.S. International Trade Commission against ten respondents on March 12, 2012 alleging infringement of United States Patent Nos. 5,870,087, 6,452,958, 6,707,867, and 6,982,663, and seeking to prevent the accused products from being imported into the United States. Specifically, LSI and Agere asserted that the DVD/Blu-ray Player and DTV chips of MTK and its subsidiaries MediaTek USA Inc. and MediaTek Wireless, Inc. (USA), infringe the foregoing patents. In addition, LSI and Agere asserted that the Wi-Fi chips of subsidiaries Ralink Technology Corp. and Ralink Technology Corp. (USA) also infringed some of the aforementioned patents.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

- d. Lantiq Deutschland GMBH (“Lantiq”) filed a complaint alleging patent infringement against TrendChip Technologies Corp.’s customer, Billion Electric Co. Ltd. (“Billion”) in 2010 in Germany. Trendchip Technologies Corp. was later merged into Ralink Technology Corporation (“Ralink”), which is now a wholly-owned subsidiary of MTK. Since Lantiq’s patent infringement allegation is related to Ralink’s DSL products, Ralink is assisting Billion in the above referenced matter. In addition, Ralink filed a patent nullity suit against Lantiq in the Federal Patent Court of Germany to invalidate the asserted patent. Ralink also filed a complaint in Wisconsin, USA against Lantiq on November 8, 2010 alleging infringement of United States Patent No. 5,394,116. Lantiq and Lantiq North America, Inc. later filed a complaint in the United States District Court for the Northern District of California against Ralink and Ralink Technology Corp. (USA) in January 2011, alleging infringement of United States Patent Nos. 6,351,799 and 7,061,904. Lantiq alleged patent infringement by Ralink’s networking and computing chips and asked the court to declare non-infringement and invalidity of the United States Patent No. 5,394,116. The Wisconsin case was transferred to United States District Court for the Northern District of California in March 2011. These two cases have been consolidated per the court’s order. On May 2, 2012, Lantiq added MTK and its subsidiaries MediaTek USA Inc. and MediaTek Wireless, Inc. (USA) as co-defendants. The operations of MTK and subsidiary Ralink would not be materially affected by those patent litigations.
- e. MOSAID Technologies Inc. filed a complaint in the United States District Court for the Eastern District of Texas against Ralink and other defendants in March 2011 alleging infringement of United States Patent Nos. 5,131,006, 5,151,920, 5,422,887, 5,706,428, 6,563,786, and 6,992,972. The operations of Ralink would not be materially affected by those patent litigations.
- f. Azure Networks, LLC and Tri-County Excelsior Foundation filed a complaint in the United States District Court for the Eastern District of Taxes against subsidiaries Ralink and Ralink Technology Corporation (USA), along with other defendants in March 2011 alleging infringement of United States Patent No. 7,756,129. On April 6, 2012, Azure Networks, LLC and Tri-County Excelsior Foundation filed a complaint in the United States District Court for the Eastern District of Texas against MTK alleging infringement of the same patent referenced above. The operations of MTK and subsidiaries Ralink and Ralink Technology Corporation (USA) would not be materially affected by those patent litigations.
- g. Commonwealth Scientific and Industrial Research Organization filed a complaint in the United States District Court for the Eastern District of Texas against MTK and subsidiaries MediaTek USA Inc., Ralink, and Ralink Technology Corporation (USA), along with other defendants on August 27, 2012 alleging infringement of United States Patent No. 5,487,069. The operations of MTK and subsidiaries MediaTek USA Inc., Ralink, and Ralink Technology Corporation (USA) would not be materially affected by this case.

The Company will handle these cases carefully.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(2) Operating Lease:**

- a. MTK has entered into lease agreements for land with the Administrative Bureau of HSIP for its need of operations. Related rent to be incurred in the future is as follows:

Lease Period	Amount
2012.10.01~2013.09.30	\$30,371
2013.10.01~2014.09.30	30,371
2014.10.01~2015.09.30	30,371
2015.10.01~2016.09.30	30,371
2016.10.01~2017.09.30	30,371
2017.10.01~2027.12.31	191,270
Total	\$343,125

- b. The subsidiaries have entered into office lease agreements for operations. Related rent to be incurred in the future would be as follows:

Lease Period	Amount
2012.10.01~2013.09.30	\$123,720
2013.10.01~2014.09.30	109,793
2014.10.01~2015.09.30	106,288
2015.10.01~2016.09.30	67,197
2016.10.01~2017.09.30	47,374
2017.10.01~2020.12.31	101,770
Total	\$556,142

7. Significant Casualty Loss

None

8. Significant Subsequent Events

In order to enhance the operating performance and competitiveness, the board of directors approved a tender offer to acquire shares of MStar Semiconductor, Inc. ("MStar") on June 22, 2012, and MTK plans to merge MStar after the tender offer. The terms of the tender offer was 1 MStar share in exchange for 0.794 MTK share plus NT\$1 in cash. MTK totally acquired 254,115,685 shares (48% of MStar's outstanding shares) of MStar. Totally 201,767,854 new shares were issued and NT\$254,116 thousand was paid as the considerations.

A merger agreement was approved by the special shareholders' meeting of both companies on October 12, 2012. After the merger, MStar will be fully merged into MTK, and the name of the surviving company will be "MediaTek Inc." Based on the resolution of the special shareholders' meeting, MTK expects to issue 218,581,841 new shares and pay NT\$275,292 thousand in cash to acquire the remaining 52% shares of MStar. The number of shares to be issued and the amount of cash to be paid were subsequently adjusted to be 221,123,877 shares and NT\$278,494 thousand, based on MTK's board resolution dated October 29, 2012. The tentative effective merger date is January 1, 2013, subject to approvals from the relevant legal and regulatory authorities.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****9. Others****(1) Financial Instruments****a. Fair value of financial instruments**

	As of September 30,			
	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
<u>Non-derivative</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 85,145,850	\$ 85,145,850	\$72,965,343	\$72,965,343
Financial assets designated as at fair value through profit or loss	\$2,118,412	\$2,118,412	\$3,609,871	\$3,609,871
Receivables	\$8,216,424	\$8,216,424	\$8,383,728	\$8,383,728
Other receivables	\$4,362,381	\$4,362,381	\$2,465,780	\$2,465,780
Available-for-sale financial assets	\$7,197,057	\$7,197,057	\$4,304,750	\$4,304,750
Held-to-maturity financial assets	\$1,125,077	\$1,131,936	\$254,164	\$257,208
Financial assets carried at cost	\$2,714,857	\$-	\$1,998,261	\$-
Bond portfolios with no active market	\$1,000,000	\$1,032,735	\$1,000,000	\$1,090,830
Investments accounted for using the equity method				
-with market value	\$57,092,495	\$59,844,244	\$1,358,176	\$2,208,236
-without market value	\$599,051	\$-	\$405,918	\$-
Refundable deposits	\$225,804	\$225,804	\$267,192	\$267,192
Restricted assets	\$20,673	\$20,673	\$13,952	\$13,952
<u>Liabilities</u>				
Short-term loans	\$10,504,436	\$10,504,436	\$2,317,175	\$2,317,175
Payables (including related parties)	\$12,054,126	\$12,054,126	\$6,817,994	\$6,817,994
Accrued expenses	\$12,326,660	\$12,326,660	\$13,160,126	\$13,160,126
Payables to contractors and equipment suppliers	\$48,515	\$48,515	\$-	\$-
Other payables	\$38,916	\$38,916	\$-	\$-
Long-term payables (including current portion)	\$148,177	\$148,177	\$-	\$-
Deposits received	\$18,430	\$18,430	\$5,969	\$5,969
<u>Derivative</u>				
<u>Assets</u>				
Held-for-trading financial assets				
-foreign exchange contracts	\$5,679	\$5,679	\$323	\$323
-cross currency swap contracts	\$-	\$-	\$137,638	\$137,638
<u>Liabilities</u>				
Held-for-trading financial liabilities				
-foreign exchange contracts	\$2,063	\$2,063	\$87,306	\$87,306

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

- (a) The following methods and assumptions were used by the Company in estimating the fair value of financial instruments:
- (i) The fair values of the Company's short-term financial instruments approximate their carrying values at the reporting date due to their short maturities. This method was applied to cash and cash equivalents, receivables, other receivables, short-term loans, payables (including related parties), accrued expenses, payables to contractors and equipment suppliers, other payables and long-term accounts payable (including current portion).
 - (ii) The fair values of the Company's refundable deposits, deposits received and restricted assets approximate their carrying value because the Company predicts the future cash inflows or outflows will be of similar amounts to the carrying values.
 - (iii) The fair values of held-for-trading financial assets and available-for-sale financial assets were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.
 - (iv) Financial assets carried at cost represent holdings of equity securities of non-public companies and have no material influence or derivatives that are linked to and must be settled by delivery of those securities. As these equity securities are not traded in open market, the fair value is not available.
 - (v) The fair values of held-to-maturity financial assets were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques. The discount rates used in the valuation techniques were estimated by the rate of return of similar financial assets.
 - (vi) The bond portfolios with no active market have no quoted price from active market but have fixed or determinable payments. Fair values are estimated using the discounted cash flow method.
 - (vii) The fair values of investments accounted for using the equity method were based on quoted market prices, if available, at the reporting date. If the quoted prices were impractical and not available, the Company did not provide the information of fair values.
 - (viii) The fair values of derivative financial instruments and financial assets designated as at fair value through profit or loss were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

- (b) Gains (losses) recognized for the changes in fair values of financial assets estimated using valuation techniques were NT\$47,650 thousand and NT\$(15,529) thousand for the nine months ended September 30, 2012 and 2011, respectively.
- (c) As of September 30, 2012 and 2011, financial assets exposed to fair value risk from fixed interest rate were NT\$72,108,100 thousand and NT\$64,734,926 thousand, respectively, and financial liabilities exposed to fair value risk from fixed interest rate were NT\$10,652,613 thousand and NT\$2,317,175 thousand, respectively. As of September 30, 2012 and 2011, financial assets exposed to cash flow risk from variable interest rate were NT\$2,933,804 thousand and NT\$4,123,139 thousand, respectively, and financial liabilities exposed to cash flow risk from variable interest rate were nil.
- (d) Interest income recognized from financial assets that were not at fair value through profit or loss amounted to NT\$1,292,550 thousand and NT\$585,355 thousand for the nine months ended September 30, 2012 and 2011, respectively. Interest expense recognized from financial liabilities that were not at fair value through profit or loss amounted to NT\$83,931 thousand and NT\$1,925 thousand for the nine months ended September 30, 2012 and 2011, respectively. The Company recognized an unrealized gain (loss) of NT\$701,341 thousand and NT\$(75,164) thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the nine months ended September 30, 2012 and 2011, respectively, and the amounts that were recycled from equity to gain (loss) were NT\$4,565 thousand and NT\$(13,065) thousand for the nine months ended September 30, 2012 and 2011, respectively. The Company also recognized an unrealized gain (loss) of NT\$394,119 thousand and NT\$(319,732) thousand in shareholders' equity for the changes in available-for-sale financial assets held by its investee companies accounted for using the equity method for the nine months ended September 30, 2012 and 2011, respectively.
- (e) Impairment losses recognized from financial assets were NT\$173,824 thousand and nil for the nine months ended September 30, 2012 and 2011, respectively.

b.

(a) Risk management policy and hedge strategy for financial instruments

The Company held certain non-derivative financial instruments, including cash and cash equivalents, short-term loans, available-for-sale financial assets-mutual fund, government bonds, corporate bonds and financial debentures. The Company held the financial instruments to meet operating cash needs. The Company also held other financial instruments such as receivables, payables, financial assets designated as at fair value through profit or loss, held-to-maturity financial assets, financial assets carried at cost, bond portfolios with no active market and investments accounted for using the equity method.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The Company entered into forward exchange contract. The contracts were used to hedge assets and liabilities denominated in foreign currency. However, as these derivatives did not meet the criteria for hedge accounting, they were recognized as held-for-trading financial assets and liabilities-current.

(b) Information of financial risks

The Company manages its exposure to key financial risks, including market risk, credit risk, liquidity risk and cash flow risk from variable interest rate in accordance with the Company's financial risk management policy. The management policy was summarized as follows:

Market risk

Market risk mainly includes currency risk. It comes from purchase or sale activities which are not denominated in the Company's functional currency. The Company reviews its assets and liabilities denominated in foreign currency and enters into forward exchange contracts to hedge the exposure from exchange rate fluctuations. The level of hedging depends on the foreign currency requirements from each operating unit. As the purpose of holding forward exchange contracts is to hedge exchange rate fluctuation risk, the gain or loss made on the contracts from the fluctuation in exchange rates are expected to mostly offset gains or losses made on the hedged item. Had the USD moved against NTD by increasing 1 cent, the fair value of the forward exchange contracts would decrease by NT\$820 thousand and NT\$1,100 thousand as of September 30, 2012 and 2011, respectively. Credit-linked deposits and interest rate-linked deposits are affected by interest rates. When interest rate increases, the market value may decrease and may even be below the initial investment cost, and vice versa. The fair value of exchange rate-linked deposits is affected by interest rate fluctuation. The fair value of mutual fund, corporate bonds, government bonds and financial debentures will be exposed to fluctuations from other market factors as well as movement in interest rates.

Credit risk

The Company's exposure to credit risk arises from potential default of the counter-party or other third-party. The level of exposure depends on several factors including concentrations of credit risk, components of credit risk, the price of contract and other receivables of financial instruments. Since the counter-party or third-party to the foregoing forward exchange contracts are all reputable financial institutions, management believes that the Company's exposure to default by those parties is minimal. The Company's credit risk mainly comes from the collectibility of accounts receivable while receivable balances are monitored on an ongoing basis and an allowance for doubtful receivables is provided. Thus, the net book values of accounts receivable are properly evaluated and reflect the credit risk the Company exposes to. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk, which arises when the counter-party or the third-party to a financial instrument fails to discharge an obligation and the Company suffers a financial loss as a result.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Credit risk of credit-linked deposits, interest rate-linked deposits and convertible bonds arises if the issuing banks breached the contracts or the debt issuer could not pay off the debts; the maximum exposure is the carrying value of those financial instruments. Therefore, the Company minimized the credit risk by only transacting with counter-party who is reputable, transparent and in good financial standing.

Liquidity risk

The Company has sufficient operating capital to meet cash needs upon settlement of derivatives financial instruments. Therefore, the liquidity risk is low.

Except for financial assets carried at cost, bond portfolios with no active market and part of investments accounted for using the equity method that may have significant liquidity risks resulted from lack of an active market, the equity securities, bonds and funds held by the Company are traded in active markets and can be sold promptly at the prices close to their fair values. Since the exchange rates of forward exchange contracts are fixed at the time the contracts are entered into and the Company does hold and anticipates to hold sufficient financial assets denominated in USD, no significant additional cash requirement is anticipated.

The liquidity risk for structured investments arises when the Company decides to have the instrument redeemed or called prior to its maturity, which must be at the market prices determined by the issuing bank; therefore the Company is exposed to potential liquidity risk. The Company minimizes such risk by prudential evaluation when entering into such contracts.

Cash flow risk from variable interest rate

The Company's main financial instruments exposed to cash flow risk are the investments in time deposits with variable interest rates. However, since the duration of the time deposit is short, the fluctuation in interest rates has no significant impact. As such the cash flow risk is minimal.

(2) Business combinations

- a. In order to enhance the operating performance and competitiveness, MTK issued new shares to exchange 100% shares of Ralink Technology Corp. ("Ralink"). The record date of shares exchange was set on October 1, 2011. After the shares exchange, Ralink became 100%-owned by MTK. The business combination was resolved by shareholders' general meetings of both companies on June 15, 2011. An exchange ratio, which has taken into account both companies' profitability, market prices, technology and future development, has been set at 3.156 shares in exchange for one share of MTK. The business combination has been approved by the government. In accordance with the R.O.C. SFAS No. 25, "Business Combinations - Accounting Treatment under Purchased Method", the Company discloses the following information:

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****(a) Background of the acquired company:**

Ralink Technology Corp. was incorporated in 2001 and is a world leader in 802.11x technology. Ralink's 802.11n Wi-Fi solutions are embedded in hundreds of products across all major Wi-Fi market segments including personal computers, broadband gateways, digital televisions, Blu-Ray players, web cameras, and IPTV set-top-boxes.

(b) The acquisition date, the percentage of ownership acquired and the adoption of the purchase method of accounting for the business combination:

The acquisition date was set on October 1, 2011. MTK issued new shares to exchange 100% shares of Ralink Technology Corp. The acquisition was accounted for in accordance with the R.O.C. SFAS No. 25, "Business Combinations - Accounting Treatment under Purchased Method". The acquisition information is as follows:

Item	Amount
Issuance of new shares due to the business combination	\$555,336
Add: Additional paid-in capital	12,259,039
Acquisition cost	12,814,375
Less: Fair value of the identifiable net assets of Ralink Technology Corp.	(6,266,138)
Goodwill	<u>\$6,548,237</u>

(c) Acquisition cost and the type, number of shares and amount of stock issued as a result of the acquisition:

Totally 55,533,588 new shares (NT\$12,814,375 thousand in the amount) of MTK were issued to acquire all Ralink's shares.

(d) Contingent payments, options or commitments included in the acquisition agreement and the proposed accounting treatment: None**(e) Significant asset disposal decisions resulting from the business acquisition: None****(f) The income and expenses of Ralink since October 1, 2011 have been included in the Company's income statement. Pro-forma information which assumes that the Company had merged Ralink since January 1, 2011 is disclosed as follows:**

	For the nine months ended September 30, 2011
Net sales	<u>\$70,681,673</u>
Net income attributable to the parent	<u>\$9,966,782</u>
Basic earnings per share (in NTD)	<u>\$8.69</u>

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

b. The board of directors of MTK and the subsidiary Gaintech Co. Limited (“GCL”) resolved on April 10, 2012 to acquire 100% shares of Coresonic AB by USD35,000 thousand. Coresonic AB became a 100%-owned subsidiary of GCL, and was renamed MediaTek Sweden AB. The acquisition of MediaTek Sweden AB was accounted for in accordance with the R.O.C. SFAS No.25, “Business Combinations - Accounting Treatment under Purchased Method”. Since the allocation period of the acquisition price was not consummated as of September 30, 2012, the Company recorded the excess of acquisition cost over the net assets as goodwill temporarily in accordance with the R.O.C. SFAS No.25, “Business Combination - Accounting Treatment under Purchase Method”. The Company will allocate goodwill to related assets or liabilities when the allocation period of the acquisition price consummates.

	Amount (US\$'000)
Acquisition cost	35,000
Less: Fair value of the identifiable net assets of MediaTek Sweden AB	(2,870)
Goodwill	32,130

(3) Other Information

a. The significant financial assets and liabilities denominated in foreign currencies were as follows :

As of September 30,						
2012			2011			
Foreign Currency (thousand)	Exchange rate	NTD (thousand)	Foreign Currency (thousand)	Exchange rate	NTD (thousand)	
<u>Financial assets</u>						
Monetary item						
USD	\$2,344,036	\$29.34	\$68,778,733	\$1,580,967	\$30.44	\$48,124,637
Non-monetary item						
USD	\$246,036	\$29.34	\$7,291,184	\$196,648	\$30.44	\$5,985,980
CNY	\$-	\$-	\$-	\$78,392	\$4.77	\$374,139
<u>Investments accounted for using the equity method</u>						
USD	\$1,958,438	\$29.34	\$57,464,474	\$6,555	\$30.44	\$199,521
<u>Financial liabilities</u>						
Monetary item						
USD	\$856,536	\$29.34	\$25,132,477	\$347,324	\$30.44	\$10,572,532

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- b. Inter-company relationships and significant inter-company transactions for the nine months ended September 30, 2012 are as follows: (For MTK's shares owned by the subsidiary, please refer to the Note 3.(25) to the consolidated financial statements.)

No. (Note 1)	Company Name	Counter Party	Relationship (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	MediaTek Inc.	MediaTek Singapore Pte. Ltd.	1	Receivables from related parties	\$41,982	Based on contract	0.02%
			1	Sales revenues	\$326,775		0.45%
		Rolltech Technology, Co. Ltd	1	Other receivables	\$168		0.00%
			1	Rent revenues	\$1,440		0.00%
		MediaTek Wireless, Inc. (USA)	1	Lease guarantee	\$64,170		0.03%
		MTK Wireless Limited (UK)	1	Lease guarantee	\$26,379		0.01%
		MediaTek China Limited	1	Bank financing guarantee	\$1,760,520		0.83%
		Gaintech Co. Limited	1	Bank financing guarantee	\$7,570,236		3.58%
		Ralink Technology Corp.	1	IP purchase guarantee	\$65,799		0.03%
1	Gaintech Co. Limited	MediaTek Korea Inc.	3	Other receivables	\$10,923		0.01%
		MediaTek Singapore Pte. Ltd.	3	Other receivables	\$6,290,925		2.98%
2	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Payables to related parties	\$55,228	Based on contract	0.03%
			3	Research and development expenses	\$473,141		0.65%
		MediaTek Denmark ApS	3	Payables to related parties	\$7,726		0.00%
			3	Research and development expenses	\$79,970		0.11%
		MTK Wireless Limited (UK)	3	Payables to related parties	\$28,699		0.01%
			3	Research and development expenses	\$242,719		0.34%

(To be continued)

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)

No. (Note 1)	Company Name	Counter Party	Relationship (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
2	MediaTek Singapore Pte. Ltd	MediaTek USA Inc.	3	Payables to related parties	\$147,130	Based on contract	0.07%
			3	Research and development expenses	\$1,065,131		1.47%
		MediaTek Japan Inc.	3	Payables to related parties	\$10,052		0.01%
			3	Research and development expenses	\$161,748		0.22%
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	\$19,711		0.01%
			3	Research and development expenses	\$170,143		0.24%
		MediaTek Korea Inc.	3	Payables to related parties	\$18,671		0.01%
			3	Research and development expenses	\$157,459		0.22%
		MediaTek Wireless L.L.C. (Dubai)	3	Payables to related parties	\$1,002		0.00%
			3	Selling expenses	\$7,111		0.01%
		MediaTek (Shenzhen) Inc.	3	Prepayment	\$88,562		0.04%
			3	Research and development expenses	\$1,090,296		1.50%
		MediaTek (Hefei) Inc.	3	Prepayment	\$75,595		0.04%
			3	Research and development expenses	\$577,751		0.80%
		MediaTek (Beijing) Inc.	3	Prepayment	\$49,654		0.02%
			3	Research and development expenses	\$1,106,899		1.53%
		Hesine Technologies, Inc.	3	Prepayments	\$7,491		0.00%
			3	Research and development expenses	\$51,136		0.07%

(To be continued)

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)

No. (Note 1)	Company Name	Counter Party	Relationship (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
2	MediaTek Singapore Pte. Ltd	MediaTek (Suzhou) Inc.	3	Prepayments	\$146,260	Based on contract	0.07%
			3	Research and development expenses	\$41,304		0.06%
		MediaTek (Chengdu) Inc.	3	Prepayment	\$17,186		0.01%
			3	Research and development expenses	\$344,465		0.48%
		MediaTek (Wuhan) Inc.	3	Prepayments	\$10,012		0.01%
			3	Research and development expenses	\$112,848		0.16%
		MediaTek (Shanghai) Inc.	3	Prepayments	\$88,006		0.04%
			3	Research and development expenses	\$129,871		0.18%
		MediaTek (Nanjing) Inc.	3	Prepayments	\$96,226		0.05%
			3	Research and development expenses	\$20,641		0.03%
3	Shadow Investment Limited	MediaTek (Nanjing) Inc.	3	Prepayments	\$7,992		0.00%
			3	Research and development expenses	\$27,576		0.04%
		MediaTek (Suzhou) Inc.	3	Prepayments	\$7,922		0.00%
			3	Research and development expenses	\$27,576		0.04%
4	Lepower Technologies (Beijing) Inc.	MediaTek (Beijing) Inc.	3	Research and development expenses	\$39,959		0.06%
5	MediaTek (Beijing) Inc.	Vogins Technologie (Shanghai) Co., Ltd.	3	Research and development expenses	\$35,072		0.05%

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Inter-company relationships and significant inter-company transactions for the nine months ended September 30, 2011 are as follows:

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	MediaTek Inc.	MediaTek Singapore Pte. Ltd.	1	Receivables from related parties	\$50,484	Based on contract	0.04%
				Sales revenues	\$435,434		0.68%
		MediaTek Wireless Inc. (USA)	1	Lease guarantee	\$85,134		0.07%
		MTK Wireless Limited (UK)	1	Lease guarantee	\$26,364		0.02%
1	Gaintech Co. Limited	MediaTek Korea Inc.	3	Other receivables	\$11,332		0.01%
2	MediaTek Singapore Pte. Ltd.	MediaTek Wireless, Inc. (USA)	3	Payables to related parties	\$647,774	Based on contract	0.52%
			3	Research and development expenses	\$754,152		1.17%
		MediaTek Denmark ApS	3	Payables to related parties	\$13,076		0.01%
			3	Research and development expenses	\$172,006		0.27%
		MTK Wireless Limited (UK)	3	Payables to related parties	\$29,625		0.02%
			3	Research and development expenses	\$277,341		0.43%
		MediaTek USA Inc.	3	Payables to related parties	\$105,451		0.08%
			3	Research and development expenses	\$782,287		1.22%
		MediaTek Japan Inc.	3	Payables to related parties	\$20,261		0.02%
			3	Research and development expenses	\$140,738		0.22%
		MediaTek India Technology Pvt. Ltd.	3	Payables to related parties	\$25,714		0.02%
			3	Research and development expenses	\$194,389		0.30%
		MediaTek Korea Inc.	3	Payables to related parties	\$16,231		0.01%
			3	Research and development expenses	\$119,653		0.19%

(To be continued)

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
2	MediaTek Singapore Pte. Ltd	MediaTek (Shenzhen) Inc.	3	Payables to related parties	\$92,038	Based on contract	0.07%
			3	Research and development expenses	\$943,590		1.47%
		MediaTek (Hefei) Inc.	3	Payables to related parties	\$83,126		0.07%
			3	Research and development expenses	\$462,863		0.72%
		MediaTek (Beijing) Inc.	3	Prepayment	\$56,706		0.05%
			3	Research and development expenses	\$1,125,062		1.75%
		MediaTek (Chengdu) Inc.	3	Prepayment	\$115,709		0.09%
			3	Research and development expenses	\$24,937		0.04%
		MediaTek (Shanghai) Inc.	3	Prepayment	\$49,263		0.04%
			3	Research and development expenses	\$12,456		0.02%

Note 1: MTK and subsidiaries are coded as follows:

1. MTK is coded “0”.
2. The subsidiaries are coded consecutively beginning from “1” in the order presented in the table above.

Note 2: Transactions are categorized as follows:

1. The holding company to subsidiary.
2. Subsidiary to holding company.
3. Subsidiary to subsidiary.

Note 3: The percentage with respect to the consolidated asset for transactions of balance sheet items is based on each item’s balance at period-end.

The percentage with respect to the consolidated net sales for profit or loss items and cumulative balance is used as basis.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)**

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

10. Operating Segment Information

The major sales of the Company come from multimedia and mobile phone chips and other integrated circuit design products. The chief operating decision maker reviews the overall operating results to make decisions about resources to be allocated to and evaluates the overall performance. Therefore, the Company is aggregated into a single segment.

11. IFRSs Adoption Information

The Financial Supervisory Commission (“FSC”) requires companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market to prepare their financial statements in accordance with the International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as recognized by the FSC (collectively referred to as “IFRSs”), and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, starting 2013. Under Rule No. 0990004943 issued by the FSC on February 2, 2010, the Company makes the following pre-disclosures on the adoption of IFRSs:

(1) The main contents of the plan to adopt IFRSs and the current status:

The Company has set up a project team and made a plan to adopt IFRSs. Leading the implementation of this plan is MTK’s Chief Financial Officer, Mr. David Ku. The main contents of the plan, estimated completion schedule and status of execution as of September 30, 2012, were as follows:

Contents of Plan	Responsible Department	Status of Execution
1. Establish a project team	Finance and Accounting	Completed
2. Make a plan to adopt IFRSs	Finance and Accounting	Completed
3. Identify differences between the existing accounting policies and IFRSs	Finance and Accounting	Completed
4. Identify consolidated entities under IFRSs	Finance and Accounting	Completed
5. Select voluntary exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards” and assess the impact of these exemptions	Finance and Accounting	Completed
6. Assess the adjustments required for IT system	Finance and Accounting and Information Technology	Completed
7. Assess the adjustments required for internal controls	Finance and Accounting and Internal Auditor	Completed
8. Finalize the accounting policies under IFRSs	Finance and Accounting	Completed

(To be continued)

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)

Contents of Plan	Responsible Department	Status of Execution
9. Finalize the selection of voluntary exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards	Finance and Accounting	Completed
10.Prepare opening IFRS statement of financial position	Finance and Accounting	Completed
11.Prepare IFRSs comparative information for 2012	Finance and Accounting	In progress
12.Finalize adjustments to the internal control (including financial statements process and the associated IT system)	Finance and Accounting and Internal Auditor	In progress

- (2) Material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and their impacts on the Company are described in the table below.

The Company assesses the material differences in accounting policies based on the IFRSs as recognized by the FSC and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers expected to become effective in 2013. However these assessments may be changed as the FSC may recognize different versions of IFRSs or amend the Guidelines Governing the Preparation of Financial Reports by Securities Issuers in the future. Furthermore, the Company has decided the accounting policies to be adopted under IFRSs based on the current circumstances, should circumstances change in the future, the accounting policies to be adopted may change accordingly. The material differences in accounting policies described in the table below may not result in any adjustment on the date of transition to IFRSs, due to the voluntary exemptions selected under IFRS 1 “First-time Adoption of International Financial Reporting Standards”.

Accounting Issues	Description of differences
Financial assets measured at cost	Under the requirements of the existing Guidelines Governing the Preparation of Financial Reports by Securities Issuer, equity investments in unlisted entities or entities traded on Emerging Stock market should be measured at cost. However under the requirements of IAS 39, only investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured could be measured at cost. The fair value of investments in equity instruments that do not have a quoted market price in an active market is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

(To be continued)

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)

Accounting Issues	Description of differences
Investments accounted for using the equity method	ROC GAAP does not require an associate's financial statements to be prepared using accounting policies that conform with those of the investor. Under the requirements of IAS 28, if an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments shall be made to conform the associate's accounting policies to those of the investor when the associate's financial statements are used by the investor in applying the equity method.
	Under the requirements of ROC GAAP, if an investee company issues new shares and original shareholders do not purchase or acquire new shares proportionately, and consequently the investment percentage, and therefore the equity in net assets for the investment that an investor company has invested have changed, the resulting difference shall be accounted for as an equity transaction. However under IFRSs, if the investment percentage has decreased under the transaction described above, it should be accounted for as a disposal of interests in associate; if the investment percentage has increased, then it is accounted for as an acquisition of the investment in an associate.
Employee benefits	Under the requirements of ROC GAAP, minimum pension liability is to be recognized for the excess of the accumulated benefit obligation over the pension plan assets. There is no such requirement under IAS 19.
	Under the requirements of ROC GAAP, the unrecognized transitional net assets (or net benefit obligation) should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits. There is no such requirement under IAS 19.
Income taxes	Under the requirements of ROC GAAP, deferred tax assets are recognized in full. However, if it is more than 50% probable that the economic benefits of a deferred tax asset become unrealizable, a valuation allowance account should be established to reduce the carrying amount of the deferred tax asset. However under the requirements of IAS 12 "Income Taxes", a deferred tax asset shall be recognized to the extent that it is probable that it would be utilized.
	Under the requirements of ROC GAAP, a deferred tax asset or liability should be classified as current or noncurrent according to the classification of its related asset or liability. If a deferred tax asset or liability is not related to an asset or liability for financial reporting, it should be classified as current or noncurrent according to the expected reversal date of the temporary difference. However under the requirements of IAS 1 "Presentation of Financial Statements", deferred tax assets or liabilities are classified as noncurrent.

(To be continued)

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)

Income taxes	Under the requirements of ROC GAAP, the current and noncurrent deferred tax liabilities and assets of the same taxable entity should be offset against each other and presented as a net amount. However under the requirements of IAS 12, an entity shall offset current tax assets and current tax liabilities if, and only if, the entity has a legally enforceable right to offset the recognized amounts; and an entity shall offset deferred tax assets and current tax liabilities if the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.
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- (3) The preliminary assessment on the monetary impacts of the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers is as follows :

a. Reconciliation of the balance sheet as of January 1, 2012:

	ROC GAAP	Adjustments	IFRSs	Note
Financial assets carried at cost-noncurrent	\$2,203,872	\$(186,259)	\$2,017,613	(a)
Investments accounted for using the equity method	1,834,664	146,319	1,980,983	(a) & (b)
Deferred income tax assets-noncurrent	-	269,382	269,382	(c) & (e)
Prepaid pension costs	3,826	(3,826)	-	(c)
Other assets	143,698,746	(220,940)	143,477,806	(e)
Total assets	147,741,108	4,676	147,745,784	
Accrued pension liabilities	190,538	254,541	445,079	(c)
Deferred income tax liabilities-noncurrent	590,934	4,520	595,454	(c) & (e)
Other liabilities	30,631,309	-	30,631,309	
Total liabilities	31,412,781	259,061	31,671,842	
Capital	11,475,191	-	11,475,191	
Capital reserve	24,605,882	(117,473)	24,488,409	(a), (b) & (d)
Retained earnings	82,463,225	(136,729)	82,326,496	(a), (b), (c) & (d)
Cumulative translation adjustments	(2,253,504)	(183)	(2,253,687)	(a)
Unrealized gain (loss) on financial instruments	43,192	-	43,192	
Treasury stock	(55,970)	-	(55,970)	
Minority interests	50,311	-	50,311	
Shareholders' equity	116,328,327	(254,385)	116,073,942	

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- (a) Under the requirement of IAS 28, NT\$186,259 thousand of financial assets carried at cost-noncurrent was remeasured and reclassified to investments accounted for using the equity method in the amount of NT\$147,883 thousand. Therefore, capital reserve, cumulative translation adjustments and retained earnings were increased (decreased) by NT\$2,514 thousand, NT\$(183) thousand and NT\$(40,707) thousand, respectively.
- (b) Investments accounted for using the equity method, capital reserve and retained earnings were (decreased) increased by NT\$(1,564) thousand, NT\$205 thousand and NT\$(1,769) thousand for conforming to accounting policies.
- (c) Under the requirement of ROC GAAP, the Company shall use actuarial assumptions to measure its defined benefit obligations and record relative pension costs and accrued pension liabilities. After the adoption of IFRSs, the Company shall use actuarial assumptions under the requirement of IAS 19 "Employee Benefits". Under the requirements of IFRS 1, the Company remeasured its defined benefit obligations, adjusted its cumulative actuarial gains and losses to zero, and recognized all unrealized transitional net benefit obligations at the date of transition. After the transitional adjustments, the Company's accrued pension liabilities, prepaid pension cost, deferred income tax assets-noncurrent, deferred income tax liabilities-noncurrent and retained earnings were increased (decreased) by NT\$254,541 thousand, NT\$(3,826) thousand, NT\$43,272 thousand, NT\$(650) thousand and NT\$(214,445) thousand, respectively.
- (d) Capital reserved-long-term investment transaction of NT\$120,192 thousand was reclassified to retained earnings due to incompliance with IFRSs.
- (e) The remaining adjustments were reclassifications to conform to the presentation under the requirements of IFRSs and did not affect shareholders' equity.

b. Reconciliation of the balance sheet as of September 30, 2012:

	ROC GAAP	Adjustments	IFRSs	Note
Financial assets carried at cost-noncurrent	\$2,714,857	\$(186,259)	\$2,528,598	(a)
Investments accounted for using the equity method	57,691,546	236,993	57,928,539	(a), (b) & (e)
IPs and others	1,466,736	(114,747)	1,351,989	(g)
Deferred income tax assets-noncurrent	257,157	311,256	568,413	(c), (d) & (i)
Long-term prepaid rents	-	114,747	114,747	(g)
Prepaid pension costs	3,826	(3,826)	-	(c)
Other assets	149,107,565	(255,963)	148,851,602	(i)
Total assets	211,241,687	102,201	211,343,888	

(To be continued)

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(Continued)

	ROC GAAP	Adjustments	IFRSs	Note
Accrued expenses	12,326,660	54,790	12,381,450	(d)
Accrued pension liabilities	195,622	257,145	452,767	(c)
Deferred income tax liabilities-noncurrent	1,098,929	34,059	1,132,988	(c), (f) & (i)
Other liabilities	24,770,555	(5,027)	24,765,528	(i)
Total liabilities	38,391,766	340,967	38,732,733	
Capital	13,493,702	-	13,493,702	
Capital reserve	79,496,975	(29,995)	79,466,980	(a), (b) & (h)
Retained earnings	82,933,422	151,976	83,085,398	(a), (b), (c), (d), (e), (f) & (h)
Cumulative translation adjustments	(4,184,049)	(218)	(4,184,267)	(a)
Unrealized gain (loss) on financial instruments	1,134,087	(360,529)	773,558	(f)
Treasury stock	(55,970)	-	(55,970)	
Minority interests	31,754	-	31,754	
Shareholders' equity	172,849,921	(238,766)	172,611,155	

- (a) Under the requirement of IAS 28, NT\$186,259 thousand of financial assets carried at cost-noncurrent was remeasured and reclassified to investments accounted for using the equity method in the amount of NT\$138,727 thousand. Therefore, capital reserve, cumulative translation adjustments and retained earnings were increased (decreased) by NT\$3,635 thousand, NT\$(218) thousand and NT\$(50,949) thousand, respectively.
- (b) Investments accounted for using the equity method, capital reserve and retained earnings were (decreased) increased by NT\$(1,043) thousand, NT\$205 thousand and NT\$(1,248) thousand for conforming to accounting policies.
- (c) Under the requirement of ROC GAAP, the Company shall use actuarial assumptions to measure its defined benefit obligations and record relative pension costs and accrued pension liabilities. After the adoption of IFRSs, the Company shall use actuarial assumptions under the requirement of IAS 19 "Employee Benefits". Under the requirement of IFRS 1, the Company remeasured its defined benefit obligations, adjusted its cumulative actuarial gains and losses to zero, and recognized all unrealized transitional net benefit obligations at the date of transition. After the transitional adjustments, the Company's accrued pension liabilities, prepaid pension cost, deferred income tax assets-noncurrent, deferred income tax liabilities-noncurrent and retained earnings were increased (decreased) by NT\$257,145 thousand, NT\$(3,826) thousand, NT\$43,714 thousand, NT\$(650) thousand and NT\$(216,607) thousand, respectively.

MEDIATEK INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

- (d) Under the requirement of IAS 19 “Employee Benefits”, the Company shall recognize unused accumulating compensated absences. Therefore, accrued expenses, deferred income tax assets and retained earnings were increased (decreased) by NT\$54,790 thousand, NT\$9,314 thousand and NT\$(45,476) thousand, respectively.
- (e) According to IFRSs, when the Company’s equity investment increases and the significant influence is obtained, the Company shall remeasure the entire equity investment at fair value. The Company’s investments accounted for using the equity method and retained earnings both increased by NT\$99,309 thousand because of this requirement.
- (f) Under IFRSs, when the Company partly disposes of an equity investment and loses its significant influence, the Company shall remeasure the remaining investment at fair value and recognize the difference between the book value of the entire investment and the fair value of the remaining investment plus the proceeds of the disposal as a gain or loss. The Company’s retained earnings, deferred income tax liabilities-noncurrent and unrealized gain (loss) on financial instruments increased (decreased) by NT\$333,112 thousand, NT\$27,417 thousand and NT\$(360,529) thousand, respectively, due to this requirement.
- (g) Under the requirement of IFRSs, the Company shall reclassify the right to the use of the land which was classified as an operating lease to long-term prepaid rent. Therefore, long-term prepaid rents and IPs and others were increased (decreased) by NT\$114,747 thousand and NT\$(114,747) thousand, respectively.
- (h) Capital reserve-long-term investment transaction of NT\$33,835 thousand was reclassified to retained earnings due to incompliance with IFRSs.
- (i) The remaining adjustments were reclassifications to conform to the presentation under the requirement of IFRSs and did not affect shareholders’ equity.

c. Reconciliation of the income statement for the nine months ended September 30, 2012:

	ROC GAAP	Adjustments	IFRSs	Note
Net sales	\$72,526,151	\$-	\$72,526,151	
Cost of goods sold	(42,562,056)	(1,645)	(42,563,701)	(a)
Gross profits	29,964,095	(1,645)	29,962,450	
Operating expenses	(21,004,854)	(55,749)	(21,060,603)	(a) & (b)
Operating income	8,959,241	(57,394)	8,901,847	
Non-operating income/ gains or expenses/losses	2,649,306	363,760	3,013,066	(c), (d), (e) & (f)
Income before income tax	11,608,547	306,366	11,914,913	
Income tax expense	(832,205)	(17,661)	(849,866)	(a), (b) & (f)
Net income	10,776,342	288,705	11,065,047	

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

- (a) Under the requirement of IAS 19 “Employee Benefits”, the Company shall recognize unused accumulating compensated absences. Therefore, cost of goods sold, operating expenses and income tax expense were increased (decreased) by NT\$1,645 thousand, NT\$53,145 thousand and NT\$(9,314) thousand, respectively.
 - (b) The Company shall use actuarial assumptions under the requirements of IAS 19 “Employee Benefits” to measure its defined benefit obligations. Therefore, operating expenses and income tax expenses were increased (decreased) by NT\$2,604 thousand and NT\$(442) thousand, respectively.
 - (c) Adjustment of gain on equity investments was increased by NT\$521 thousand for conforming to group accounting policies.
 - (d) Under the requirement of IAS 28, the Company remeasured and reclassified financial assets carried at cost-noncurrent to investments accounted for using the equity method. Therefore, gain on equity investments was decreased by NT\$10,242 thousand.
 - (e) According to IFRSs, when the Company’s equity investment increases and the significant influence is obtained, the Company shall remeasure the entire equity investment at fair value. The Company’s gain on disposal of investments was increased by NT\$99,309 thousand because of this requirement.
 - (f) Under IFRSs, when the Company partly disposes of an equity investment and loses its significant influence, the Company shall remeasure the remaining investment at fair value and recognize the difference between the book value of the entire investment and the fair value of the remaining investment plus the proceeds of the disposal as a gain or loss. The Company’s gain on disposal of investments and income tax expense were increased by NT\$274,172 thousand and NT\$27,417 thousand, respectively.
- d. According to the requirements under IFRS 1, “First-time Adoption of International Financial Reporting Standards”, the Company prepares its first IFRS financial statements based on the effective IFRS standards and makes adjustments retrospectively, except for the optional exemptions and mandatory exemptions under IFRS 1. The optional exemptions selected by the Company is as follows:
- (a) IFRS 3 “Business Combinations” has not been applied to acquisitions of subsidiaries and of interests in associates that occurred before January 1, 2012. Applying this exemption would result in the carrying amount of assets acquired and liabilities assumed in the business combination in accordance with previous GAAP to be their deemed costs in accordance with IFRSs as at the date of acquisition. Subsequent to the date of acquisition, the assets and liabilities would be measured in accordance with IFRSs. The carrying amount of goodwill in the opening IFRS Balance Sheet is its carrying amount in accordance with previous GAAP at December 31, 2011, after testing for impairments and adjusting for recognition or de-recognition of intangibles under IFRS 1.

MEDIATEK INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

- (b) The Company has recognized all cumulative actuarial gains and losses directly to retained earnings as of January 1, 2012.
- (c) The Company has elected to disclose amounts required by paragraph 120A (p) of IAS19 prospectively from January 1, 2012.
- (d) IFRS 2 has not been applied to equity instruments in share-based payment transactions that vested before January 1, 2012.
- (e) The Company has applied the transitional provision in IFRIC 4 and has assessed all arrangements whether include lease transaction as of January 1, 2012.
- (f) Under the requirement of IFRIC 1 “Changes in Existing Decommissioning, Restoration and Similar Liabilities”, changes in the liabilities of existing decommissioning, restoration and similar liabilities shall be added to, or deducted from, the cost of the related asset in the current period. The adjusted depreciable amount of the asset is depreciated over its useful life. The Company need not to comply with these requirements for changes in such liabilities that occurred before the date of transition to IFRSs.